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# NORTH AMERICAN FREE-TRADE AGREEMENT

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North American Free-Trade Agreement...

## HEARINGS BEFORE THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

JULY 31, 1993, ORLANDO, FL  
SEPTEMBER 29, 30, AND OCTOBER 14, 1993  
ADMINISTRATIVE WITNESSES  
OCTOBER 19, 1993  
AGRICULTURE-RELATED ORGANIZATIONS

**Serial No. 103-45**





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# NORTH AMERICAN FREE-TRADE AGREEMENT

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SATURDAY, JULY 31, 1993

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON AGRICULTURE,  
*Orlando, FL.*

The committee met, pursuant to call, at 9:30 a.m., in the council chambers, City Hall, 400 South Orange, Orlando, FL, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives Thurman, Roberts, Lewis, and Canady.

Staff present: Marshall Livingston, clerk; Xavier Equihua and Stacy Steinitz.

## **OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

The CHAIRMAN. The hearing will be in order. Good morning. We have come to Florida at the invitation of our colleagues on the Agriculture Committee: Representatives Thurman, Lewis, Canady, and other members of the Florida delegation. This is what is generally known as a field hearing, which means that we come out of Washington into the field to listen to people in their own backyards, so-to-speak, and not have to come to Washington. I understand, this is the only committee and this is the first hearing that has been held on the issue of the North American Free-Trade Agreement outside of Washington.

Let me say that this is done at some degree of sacrifice by the members. For each one of us would either be in our own districts or in Washington. So this is an extracurricular activity—not that we want anything for it or anything of the sort. But I think you should know that field hearings are done at some degree of expense, both to the committee and time to the members who sacrifice being in their districts or with their family in order to reach out to our constituencies throughout the United States.

We have very limited time here, unfortunately, because several of us have engagements this evening either in Washington or in our districts. So, unfortunately, there is a time constraint. I am going to ask every witness, if you have a prepared statement, that statement will appear in the record as if read in its entirety. I ask that you kindly summarize or limit your remarks to the timeframe that we will allot. Hopefully you can do it within a 3-minute period of time. I know that for many of you, this is not the norm. For us, we have a time called the 1-minute rule, which you can say anything you want to about anything, but you have to do it within 1 minute. That is before the beginning of the session almost every

day. But hopefully we will be able to do your testimony, summarize within 3 minutes.

We had a technical problem and I must apologize. When I saw the list, I jumped out of my chair and said no way we can do all of these witnesses. Therefore, there were some calls, if there was a duplication or if an individual would be represented by an organization, that we might try and not duplicate. I understand that some concern was expressed, so we will make every effort to see that all the original witnesses on the list will be heard. We may have to reduce time at the end, and the cooperation of the previous witnesses will be appreciated. Up to the time we have to rush to the airport, we will be here to listen to everyone; hopefully, covering everyone in the original list.

We do not come as advocates, pro or against. We come only to hear you, whatever your position is. I might add also that the North American Free-Trade Agreement is not a creature of the Congress. It all began with President George Bush, Prime Minister Mulroney of Canada and President Salinas de Gortari of Mexico. The negotiations were done solely by the executive branch, in our case, the administration of President Bush, with negotiators from Canada, Mexico, and the United States.

The Congress, in a very minute way, advised. They were willing to listen. But this is not a creature of the Congress. Congress has had no part in preparing the agreement or in working the side agreements that are in progress now. I want that understood by everyone. That it is not a creature of the Congress, it is of the previous administration and now this administration that is in place in Canada and it is still the same administration in Mexico.

I might add also that in the wisdom of the negotiators, Canada opted out and was allowed to do so by the other two participants. Therefore, in the agricultural sector, Canada deals directly with Mexico, not through the NAFTA. We have a prior United States/Canadian agreement—not working as well as some of us think it should—but this NAFTA proposition does not include Canada. It is only the United States and Mexico. We want you also to understand that.

So this is the first congressional hearing outside of Washington. There are now groups pro and con. In this hearing, we want only to hear from those that are here, to give us your views for or against, and that will accrue to our benefit when the NAFTA comes to the Congress.

With me are Representatives Thurman, Lewis, Canady and the ranking minority member of the Agriculture Committee. Translated out here, it means that Mr. Roberts is the No. 1 Republican on the committee, we call him "ranking minority member." The only difference between he and I, at this point, is that the Democrats have the majority in the Congress; therefore, the chairman is a Democrat. If the Republicans had the majority in the Congress, Mr. Roberts would be the chairman. But he very graciously accepts the fact that they have not for a long time and probably will not for the foreseeable future. [Laughter.]

With that, I yield to Mr. Roberts.

OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. ROBERTS. I will agree to all that except the word "gracious."  
[Laughter.]

Mr. Chairman, I want to commend you for holding this hearing and for your dedicated leadership on the House Committee on Agriculture. The chairman has indicated that we do have a difference with an "R" behind my name and a "D" behind his, but I want to assure everybody present that all members of the Ag Committee work in a bipartisan effort, more like a family. We are probably the least partisan committee in the Congress, not that we do not have our strong differences of opinion, but we feel very strongly, in a Congress where we are in most cases simply outnumbered, that we have to hang together or we are going to hang separately.

I would also like to express my thanks to the other members present, to Karen and to Charles, who are new members of the committee, and making a valuable contribution, and more especially to my good friend, Tom Lewis, who has been whispering in my ear all about fruits and vegetables and citrus and Florida agriculture and what you are about, as it relates to NAFTA. Tom has been giving, at least our side, and I think everybody that he can touch and feel and talk to, all the information on what we would like to have from NAFTA, and some of the problems. So thank you, Tom, for your efforts.

And I want to thank everybody that has taken time out of very busy schedules to come here so we can listen and learn, and that is the purpose of the hearing.

I might tell you I have the privilege of representing 66 counties out in Kansas, my district is larger than most States. I am from Dodge City, Kansas, America. We are a little different out in Dodge City, we shot a vegetarian the other day, but he was inside the city limits and he had broccoli right on him, so that is how that went.  
[Laughter.]

So we are a little different out there, we are livestock and we are wheat and we are feedgrains and we are soybeans and we are small manufacturing. We probably have 12,000 jobs right now that relate to Mexico and we have about 70 to 80 firms that relate to this. We do not have a good market share with wheat right now, the world is awash with grain, and we wonder how we can get our market share back, how we can compete, and when we wonder where those customers are—well we look south. So the situation in Kansas is a little different—to say the least—in regard to what it is here in Florida. I just say that to sort of illustrate to you that this is obviously a trade agreement that affects all of agriculture in the United States.

Now I am concerned, especially concerned, about what we call import surges, and Tom has his definition. If we could get our United States Trade Representative to adopt the Lewis plan for import surges, why perhaps we would not even have to have this hearing here today, but we are going to try to work on that.

The thought I would like to leave with you as we listen to you and we take your testimony and we listen and learn, sooner or later we are going to have to have some kind of a trade agreement with our trading partners. And I guess the point I am trying to

make is—everybody here is worried about what happens if NAFTA passes, I am worried about that, I am concerned about it, we all share your concerns. Nobody wants any job losses. I am also concerned about what happens if a “good” trade agreement—I will put that in quotes—does not pass. American agriculture is not going to be able to rely on the Federal Government in terms of deficiency payments and help and safety net with the budget pressures we have. It is declining—we are a target even though we work in a bipartisan way to protect us from the budget cuts and we have been cut 9 percent a year the last 4 years, why we are still a target. Then on the environmental side, we have all these responsibilities and challenges and my gosh, my guys have to stand out in line in front of the ASCS office for hours on end. And we are being told how to farm, what to farm, when to farm, and those are all costs. We are the residual supplier now in terms of grain, that is a dead-end street. So we need to export, we need value-added products, we need to compete and we need customers. So some kind of trade agreement is in the best interest of all of agriculture, but we do not want it to be to the detriment of anybody in this country or any commodity, any group.

It is a pleasure to be here and I look forward to your testimony.

The CHAIRMAN. Thank you very much. As is the custom, very briefly, I now yield to our distinguished colleague from Florida and a very valuable member of our committee, Mrs. Thurman.

#### **OPENING STATEMENT OF HON. KAREN L. THURMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Mrs. THURMAN. Thank you, Mr. Chairman. I just want to take this opportunity to thank you, Mr. Chairman, and Mr. Roberts for coming to Florida and listening to the concerns of Florida agriculture. I hope that by the end of this afternoon, you have a better understanding and can certainly understand the reasons why we were able to fill this room, on a Saturday morning at 9:30 a.m. with people across this State, because of the concerns that they have with the agreement, without any of the side agreements before us.

I personally would just like to take this opportunity to say hello to a lot of friends that I have had over the years in the Florida senate and certainly am very appreciative of them coming here today, and I am looking forward to your testimony.

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

#### **OPENING STATEMENT OF HON. TOM LEWIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Chairman, I would like to thank you for convening this hearing to review the agricultural provisions of the North American Free-Trade Agreement. As you know, there is no more important issue to Florida agriculture today than NAFTA. I appreciate your willingness to bring the committee to Florida to take a first-hand look at the impact of NAFTA on Florida's agriculture. The implementation of the NAFTA agreement in its current form will certainly benefit agriculture somewhere, but as far as Florida, there

is great concern that it will not benefit Florida at all, Mr. Chairman.

The Congressional Research Service projections on industry winners and losers determine agricultural winners will be grain, soybeans, all seeds, corn, sorghum, and livestock. However, the losers, according to CRS could be Florida's top four crops; sugar, fresh fruits, vegetables, and especially citrus, and winter harvested crops.

I and many of my colleagues in the Florida delegation cannot ignore these concerns. Florida is responsible for producing more than one-half of the entire country's supply of fruits, vegetables, citrus, and cane sugar supply during the winter months. In my view, it is not unreasonable to insist that NAFTA contain the proper safeguards to guarantee fair competition between Mexico and the United States. The problem solutions are not new, they have been clearly outlined by myself and the Florida delegation to both this administration and the previous administration. We are simply asking for some very reasonable solutions for the citrus, sugar, fruit, and vegetable industries. Most of the concerns can be easily addressed in a strong import surge side agreement.

Mr. Chairman, as you know, the Florida industry is a \$6.3 billion industry. As far as our economic stool, it is the second leg; with tourism first, agriculture, and then construction. And construction certainly has gone by the wayside. So the stabilization of our economy is agriculture. And it is a \$16.1 billion economic impact on the State of Florida.

Mr. Chairman, I have some statements that I would ask unanimous consent to be included in the record. One from Senator Mack, and he would like me to summarize his quickly. He would like to thank you for holding this hearing and the opportunity to have the citizens of the Florida agricultural community express their concerns. And he points out that he made his decision 2 years ago not to support fast-track authority, and it was one of the most difficult decisions that he had faced during his period in Congress. When it comes time to vote on this trade agreement, he will do what he thinks is best in the interest of Florida.

Then I also have statements, Mr. Chairman, from Michael Bilirakis, Congressman from Tarpon Springs; Lincoln Diaz-Balart, Congressman from Miami, and John Mica, Congressman from Orlando. I ask unanimous consent that these be included in the record. And again, thank you for convening this hearing, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Lewis, and those statements and those of any other member, without objection, will be included in the record.

Mr. Canady.

[The prepared statements of Senator Mack and Messrs. Bilirakis, Diaz-Balart, and Mica follow:]

CONNIE MACK  
FLORIDA

## United States Senate

WASHINGTON, DC 20510-0904

STATEMENT BY UNITED STATES SENATOR CONNIE MACK FOR THE HOUSE  
COMMITTEE ON AGRICULTURE'S FIELD HEARING ON THE  
NORTH AMERICAN FREE TRADE AGREEMENT  
AT THE ORLANDO CITY HALL SATURDAY, JULY 31, 1993

Mr. Chairman, I want to thank you for the opportunity to submit my remarks concerning the proposed North American Free Trade Agreement to the House Committee on Agriculture. It is always good to address my colleagues from the House of Representatives, where I proudly served for six years.

Representing the entire state of Florida, along with my colleague Senator Graham, has been, and continues to be, quite a challenge. Seeing that the citizens of Florida are given the same opportunities as others in the United States is one of my main concerns. A prime example is the possible economic damage we face from trade agreements which ignore Florida's legitimate and unique agricultural concerns. As a Senator from Florida, my number one concern with North American Free Trade Agreement is the impact it will have on the economy of Florida.

I have long understood and promoted the idea that open markets are the only responsible, proven course for domestic and international economies to pursue. However, we must guard against the potential negative effects that Florida's agricultural economy may face under this agreement.

The decision I made two years ago, not to support Fast Track authority, was one of the most difficult decisions I have faced since first elected to Congress. I fervently believe in the benefits of free trade but I cannot brush-aside the interests of Florida to support a NAFTA agreement that could place men and women in my state out of work. Unless there are major changes to this trade agreement that address Florida economic concerns I will not be able to support it.

I have been encouraged of late to hear that Ambassador Kantor and his negotiating team are attempting to address some of the agricultural concerns that the Florida Congressional Delegation raised with him in a meeting earlier this year. It is my sincere hope that these problem areas will be addressed and solved in the side agreements with the Government of Mexico and that I will be able to support this important agreement.

When it comes time to vote on this trade agreement I will do what's best for Florida. But again, I cannot support this agreement in its current form because it will drastically effect Florida's economy.



## THE HONORABLE MICHAEL BILIRAKIS

TESTIMONY BEFORE THE HOUSE COMMITTEE ON AGRICULTURE  
JULY 31, 1993

Mr. Chairman, I would like to take this opportunity to thank you for allowing me to submit written testimony to the Committee on the North American Free Trade Agreement (NAFTA). This is an important issue to many of my constituents. I would also like to thank Congressman Tom Lewis for his efforts on behalf of Florida agriculture.

I have listened carefully to the debate over NAFTA. A lot of figures are floating around regarding the economic impact the agreement will have on the United States. On balance, I think the agreement will benefit the United States' economy.

Mexico is the fastest growing U.S. export market in the world. Mexico surpassed Japan as our second largest market for U.S. exports of manufactured goods. Last year, overall U.S. exports to Mexico exceeded \$40.5 billion, and since 1987, our exports to that country have risen by an annual rate of 22 percent.

Mexico is also an important market for Florida. In 1987, the total value of Florida exports to Mexico was approximately \$219 million. Last year, Florida exports to Mexico were \$663 million, an increase of 203 percent over the last 5 years.

However, while I am generally supportive of NAFTA, I have some very strong concerns about the agreement's impact on certain industries -- particularly Florida agriculture. Agriculture is the second largest industry in Florida, providing jobs for more than 250,000 people during peak production periods. Over 240 different crops are produced in Florida, and these crops are grown on 40,000 farms, ranches and groves.

The Institute of Food and Agricultural Sciences at the University of Florida recently conducted research to measure agriculture's impact on the state's economy. The Institute found that agriculture contributes approximately \$16.1 billion to Florida's economy in terms of production and processing.

Florida agriculture also has a tremendous impact on our nation's food supply. During the winter months, Florida growers provide more than half of the nation's fruit, vegetables, citrus and cane sugar.

Given the importance of agriculture to the state's economy, the negotiation of the North American Free Trade Agreement (NAFTA) has been of special concern to individuals involved in Florida agriculture as well as to the state's congressional

delegation.

In February 1991, the U.S. International Trade Commission 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. Mexican producers are able to supply many of the same horticultural commodities grown in Florida at lower costs.

Studies conducted by the Commission for the Study of International Migration and Cooperative Economic Development and the University of Florida estimate Florida's losses to be between \$80 million to \$300 million. Job loss due to market and production losses for fruits and vegetables other than citrus in Florida range from 16,500 to as high as 60,000 jobs.

Throughout the negotiations, members of the Florida congressional delegation have been meeting with representatives from our agricultural industries to discuss their problems with the trade agreement. Based on these meetings, it is evident that as currently written, NAFTA fails to satisfy many of Florida agriculture's concerns. I just wanted to take a moment to summarize some of the fears that my constituents have brought to my attention.

First, winter fruits, vegetables, citrus and sugar are recognized as being the most sensitive to tariff reductions. Yet, only 4 percent of Florida's winter fresh fruits and vegetables are included in the longest phase-out period. The agreement should be modified to afford producers of these sensitive crops a transition period that meets their maximum time needs.

For example, Florida's citrus industry has been adversely impacted in the previous decade by freezes in 1981, 1983, 1985 and 1989 as well as by the citrus canker outbreak in 1984. The industry is finally on the road to recovery. However, for a grower who borrowed money, it will take 16 to 17 years to recover the investment, and it will take at least 20 years for that grower to make a modest return. This is why a twenty-year drop-dead tariff is so vital to the citrus industry.

Second, the agreement's safeguard mechanism is insufficient to meet Florida agriculture's needs. The current mechanism is a volume-based tariff-rate quota (TRQ) which allows a commodity to enter at preferential NAFTA rates while the excess amount is charged the original MFN tariff. The TRQ mechanism is likely to depress prices early in each tariff window. Import sensitive commodity markets are too volatile to be adequately addressed by a volume-only safeguard mechanism.

Florida's agricultural industry requested a price- and volume-based mechanism to protect growers from downward price pressure. Without such a safeguard mechanism, our commodities will not be adequately protected from import surges.

Third, my constituents have also expressed a concern that other countries will ship products through Mexico in order to receive the benefits of NAFTA. The agreement already contains rules of origin designed to prevent such abuses. Some assurance that NAFTA's enforcement mechanisms will be enforced is critical.

These are just a few of the concerns Florida's agricultural community has about NAFTA. I know agricultural representatives will be providing the Committee on Agriculture with a more detailed analysis of NAFTA's impact on their industry.

The Florida congressional delegation has also met with officials from both the Bush and Clinton Administrations. In the course of our meetings, we have outlined agriculture's recommendations to the Administrations.

We are not insisting that the agreement be reopened. We are simply asking for some reasonable solutions for Florida's citrus, sugar and fresh fruit and vegetable industries. Unless our concerns are addressed, it will be very difficult for this Member of Congress to support the North American Free Trade Agreement.

**STATEMENT OF LINCOLN DIAZ-BALART TO THE HOUSE  
COMMITTEE ON AGRICULTURE FOR THE NORTH AMERICAN  
FREE TRADE AGREEMENT FIELD HEARING IN ORLANDO ON  
JULY 31, 1993**

While I support the concept of free trade, I am concerned about the impact of NAFTA on Florida's economy and I still remain unconvinced this is a good idea. The agricultural and manufacturing areas of our state have been very active in expressing their viewpoints to me in opposition to NAFTA. Furthermore, the environmental concerns are insufficiently addressed by the agreement.

Mexico and Canada's close political and economic relationship with the Castro regime is something I cannot ignore. Both have promoted trade and extended generous subsidies to Cuba. Castro uses these relationships to sustain his brutal dictatorship. NAFTA may not sufficiently safeguard against Cuban products circumventing the United States embargo and finding their way into the United States through Mexico, nor does it require Mexico and Canada to end their subsidies to Cuba.

The North American Free Trade Agreement is being entered into under negotiating authority for bilateral free trade agreements provided for in the Omnibus Trade and Competitiveness Act of 1988 (OTCA) and on this basis would also be considered a congressional-executive agreement. The OTCA generally contains the same implementation requirements as the Trade Act, but also requires that certain supporting information be submitted to Congress along with the Agreement, the statement of administration action, and the implementing bill.

The fruit and vegetable industry, in Florida, is a \$3 billion industry providing jobs for thousands of individuals. The Florida Fruit and Vegetable Association has stated in its March 4, 1993 letter to the President that "The proposed NAFTA perpetuates an unfair trade situation for U.S. producers. For example, NAFTA's provisions do not effectively deal with the vastly different wage rates, environmental and labor regulations, and regulatory

enforcement levels between the United States and Mexico that create an artificial comparative advantage for Mexican growers in the production of some fruits and vegetables. The potential for serious damage to the fruit and vegetable industry has been well documented. This harm can be substantially avoided if certain mitigating measures are included in the parallel agreements...Our goal is to save farms and jobs, ensure a wholesome and abundant food supply, and maintain the economic health of our rural communities."

The Florida Tomato Committee believes that the objectives of the Federal Marketing Order No. 966, have been thwarted by excess tomatoes from Mexico that sidestep the elements contained in the federal Marketing Order. As a result of Mexico dumping these tomatoes in the U.S., the price of Florida tomatoes plummeted and in mid-February and March of this year, producers even stopped picking. This is a recurring problem each season. The net effect is a disruption in marketing, interstate commerce and valuation of the tomato industry.

The U.S. International Trade Commission has concluded that the Florida winter vegetable industry, including tomatoes, would likely be adversely affected by NAFTA. Other studies have found that in the first year alone the tomato industry would lose 8,700 jobs and over \$125 million. Since tomato growers do not receive subsidies, the cost of production in the U.S. is higher than that in Mexico. Although Mexico has laws governing labor and the environment, there is no real enforcement of those laws. The lack of adequate information concerning Mexican agriculture and evidence of its government's ability to implement laws and regulations to safeguard employees, agriculture and the environment is compelling enough to not implement NAFTA at this juncture.

For example, when Representative Marcy Kaptur (D-Ohio), who recently led a fact-finding delegation of House members to Mexico, they observed a chicken drinking from a contaminated canal at a maquiladora industrial park drop dead at their feet, but only after it had choked and coughed up blood. An AFL-CIO representative, who also attended the delegation, found numerous toxic products. These products find their way into the

Rio Grande, which has also been described as the "River Cesspool." It will cost billions of dollars to provide for sewers and drinking water around the border areas of this single plant location.

Most farmers are in disagreement with NAFTA. They view this program as a roadway for Mexico to import from other nations, highly subsidized and cheap products for its own consumption. This will free millions of dollars of domestic products it can then dump on the U.S. market, including sugar, dairy products, and cattle. As a result, American agribusinesses have already begun to set up shop in Mexico to take advantage of low employee wages and lax environmental standards. This will have the net effect of disabling the ability of the U.S. to address the needs of our farmers and consumers as they arise. Another important point is that NAFTA also contains an accession clause which will allow any country or coalition of countries to join NAFTA if they follow the approved conditions of admittance without other negotiations. These other nations may include Chile and other Latin American countries.

Numerous and critical concerns have been raised that NAFTA will harm numerous facets of the Florida agriculture industry. Concerns have been raised that NAFTA does not provide American consumers sufficient protection from the importation of Mexican fresh fruits and vegetables which may be treated with pesticides not approved by the United States. The General Accounting Office has found that the Government of Mexico does not have the monitoring or enforcement capability to ensure that the pesticides used are those of the international standard, the U.S. standard, or any other standard.

Many of my Republican and Democratic colleagues agree with my concerns, and as it stands now, the approval of NAFTA during 1993, by the U.S. Congress is doubtful.

REPLY TO

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COMMITTEE ON PUBLIC WORKS  
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SUBCOMMITTEE ON AVIATION

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT  
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SUBCOMMITTEE ON ENVIRONMENT, ENERGY  
AND NATURAL RESOURCES

SUBCOMMITTEE ON HUMAN RESOURCES  
AND INTERGOVERNMENTAL RELATIONS

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515-0907**

July 31, 1993

The Honorable E (Kika) de la Garza  
Chairman  
Committee on Agriculture  
U. S. House of Representatives  
Washington, DC 20515

Dear Chairman de la Garza:

I commend you and the other Members of the House Committee on Agriculture for conducting this important meeting in Central Florida about the provisions of the proposed North American Free Trade Agreement (NAFTA).

I appreciate the invitation to testify at the field hearing. Unfortunately, I regret that I will be unable to participate personally due to a scheduling conflict. As a member of the House Government Operations Subcommittee on Human Resources and Intergovernmental Relations, I will be participating in a field hearing relating to Medicare fraud which prevents me from being with you.

However, I do want to express my continued opposition to NAFTA as it now stands. Because of the current NAFTA provisions, I feel that certain Florida agricultural products, including citrus and fresh fruits and vegetables, will be unfairly impacted by the provisions of the treaty.

I hope that your hearing will address some of these problems and that you persist in focusing attention on these important provisions.

Again, I commend you and the other Members for your fine efforts to review this critical matter which will soon come before the Congress.

With my regards and best wishes, I remain,

Sincerely,

John L. Mica  
Member of Congress

**OPENING STATEMENT OF HON. CHARLES T. CANADY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Mr. CANADY. Thank you, Mr. Chairman. I would like to join in thanking you for bringing this committee to Orlando. I think it is important that we hear from the people in Florida on this critical issue.

I want to express my appreciation also to Representative Lewis for the great leadership he has provided in the Florida delegation as we have grappled with this issue. He has provided great leadership and I am personally very grateful to him for that. And I think all of us in Florida owe him a debt of gratitude.

As we gather today to consider and hear your comments about the NAFTA, there is one observation I would make. We have heard a lot about the long-term benefits of the NAFTA for us in the United States. I would simply observe that in order to enjoy long-term benefits, you have to survive through the short term. And I am concerned that with the NAFTA as we now see it, unless we make significant progress in addressing the issues that you are going to raise today, that Florida agriculture as we know it will not survive through the short term, to enjoy any long term benefits. So I believe—and I for one am committed to ensuring that we only have a NAFTA adopted if we can see adopted the types of measures that are going to be discussed today, that will ensure a level playing field for Florida agriculture. So Florida agriculture will not be subjected to unfair competition, competition that will prevent it from surviving through the short term into the long term.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Any witness who has not turned in their testimony, I ask if you would kindly do so to the staff at the end of the table here.

With that, we will begin with the list of witnesses. Our first witness is our colleague from Florida, Congressman Jim Bacchus. We welcome you and we will hear from you at this time. And you have the luxury of not being limited to the 1 minute, you have 3.

**STATEMENT OF HON. JIM BACCHUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Mr. BACCHUS. Thank you, Mr. Chairman. I do not think I will need 3 minutes. I want you to have an opportunity to listen to all these folks who have come here today from so many places throughout Florida. I simply wanted to welcome you and Mr. Roberts to Florida. We know that you have gone way out of your way and far from your homes in order to come here, we are very happy to have you. I wanted to thank my colleagues in the Florida delegation for their very strong leadership in trying to protect the legitimate interests of Florida agriculture. I share very many of their concerns.

Like all of you and like all of those who are assembled today, I am awaiting the results of the negotiations that have been continuing between our country and the nations of Mexico and Canada. I am awaiting these side agreements. I want to make certain that in the areas of labor, environment, and especially import surges, that the legitimate interests of Florida and of the United States of America are adequately protected. Ideally I would like to see an



agreement succeed, but I do not want to support any agreement that I do not believe will be in our long-term interest as a State and as a nation.

I want to say too that the presence of so many people here today from throughout the State, including many of my constituents, is evidence of the very great and grave concern that we share about the possible impact of this proposed agreement on our State. I know you are aware of that and I defer to my friends and neighbors here in voicing their concerns to you today. And again, thank you very much. I hope you have an opportunity to stay at least a day or so before we return to Washington and maybe enjoy a little of the amenities that Florida has to offer.

Thank you again for coming here.

The CHAIRMAN. Thank you very much. We appreciate it and we appreciate you being here.

The first panel that we have is your distinguished commissioner of agriculture, Bob Crawford; Mayor Clarence Anthony; Ms. Lori Edwards, and the distinguished Ambassador Diego Asencio, who I might add as an aside is one of the most distinguished career Ambassadors we have had in our diplomatic corps. He distinguished himself in many posts including a very difficult one where he was held as hostage for several days and turned out to be the negotiator and the hero of the peaceful resolution of that endeavor. We are very happy to see you and to have you, Mr. Ambassador.

Ambassador ASECIO. Thank you, Mr. Chairman.

The CHAIRMAN. With that, we will begin with Commissioner Crawford.

**STATEMENT OF BOB CRAWFORD, COMMISSIONER, DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES, STATE OF FLORIDA**

Mr. CRAWFORD. Thank you, Mr. Chairman and members of the committee. I cannot tell you how appreciative Floridians and Florida agriculture are today to have such a distinguished panel come all the way to Florida on a Saturday morning, especially at a time when life in Washington is very difficult and the pressures are unbelievably burdensome. We appreciate very much you coming here and taking this time.

We also appreciate all the past support and concerns that the members of your panel have given to the issues that are so vital to Florida agriculture. Let me say I like the looks of this committee. We feel like Florida gets a lot of good attention from our own Congressman Canady, Congressman Lewis, and Congresswoman Thurman. Mr. Chairman, your help through the years has been invaluable with your efforts and your staff.

The hall here is full this morning. I assure you there could have been thousands of people outside because of the concerns that Florida agriculture has about the North American Free-Trade Agreement. We know that we are in front of friends this morning and we want to, in a very cool and calm, deliberative way, express those concerns that Florida has with the North American Free-Trade Agreement.

I think it has been said over the last few months and maybe couple of years that NAFTA could be the salvation of this country, oth-

ers have said it could be the downfall of America. The truth probably lies somewhere in the middle. But I think it is also correct to say that in my viewpoint that the agreement is extremely beneficial to Mexico as it is currently written. Written in a proper and more appropriate form, in my opinion, it could also be beneficial to this country. And that is what we are hoping to achieve by your efforts, the efforts of Ambassador Kantor, Secretary Espy, and all of those who are working on the side agreements to make this better for America.

The impact on Florida agriculture, which has not eluded this committee, is devastating. As Congressman Lewis mentioned, we are in excess of a \$6 billion per year cash crop industry. Extrapolating that out, it makes into an \$18 billion plus industry in the State of Florida. It is a big industry. The U.S. Department of Labor has estimated that 20 percent of all the jobs in Florida are agricultural-related. So as we are impressed with all the attributes of Florida, certainly agriculture is still a major industry in this State.

What we are asking for in the side agreements, I think are reasonable. We are asking for harmonization of the labor, environmental, and phytosanitary conditions. We are asking for the longest phase-out periods possible for the winter-grown fruits and vegetables. The specific provisions as relates to sugar and substitutions I think can be achieved, and all these can be achieved, in my opinion and in the opinion of our legal counsel, without opening up the agreement. So we think what we are asking for is reasonable, we think that it will improve the agreement, and I think people in this State will be much more supportive of the agreement with those changes.

I would like to leave with the committee, a resolution adopted by the Florida cabinet, signed by the Governor and all six statewide elected officials of the Florida cabinet, expressing their concerns about the impact on Florida agriculture. I also have 10,000 signatures that come from Floridians all across the State. We have just now started collecting signatures. I think we will see tens of thousands more expressing their concern. So, Mr. Chairman and members of the committee, we hope that your efforts can make this a better agreement, an agreement that we in Florida can support and one that would be good for this country and for all of our people.

With that, I would like to yield the microphone.

[The prepared statement of Mr. Crawford appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Commissioner, and the communications which you bring, without objection, will appear in the record. Ten thousand signatures, I do not know. I think that we probably can include them as an addendum to the file of the hearings, and any others that you might want to send within the foreseeable future. Probably a printing of the record will be done within the next week. So we would include any signatures, petition, whatever you would call it, as an addendum, but the communications will appear as part of the record.

Mr. CRAWFORD. Thank you, Mr. Chairman.

The CHAIRMAN. Now it is my pleasure to ask Ambassador Diego Asencio at this time to give us your presentation.

**STATEMENT OF DIEGO C. ASENCIO, EXECUTIVE DIRECTOR,  
FLORIDA INTERNATIONAL AFFAIRS COMMISSION**

Mr. ASENCIO. Thank you, Mr. Chairman and thank you for your very kind words. As you know, the only charm of the hostage story is that I managed to talk my way out of the situation we were in, but it took me 61 days. So 3 minutes—it usually takes me that long just to say hello. But I will try.

Certainly the Florida International Affairs Commission is greatly concerned at the potential impact of NAFTA on the agricultural sector, and we are hoping that some sort of reasonable arrangement could be worked out to protect that sector.

However, I want to perhaps state some of the points that would not ordinarily emerge in this sort of a meeting, and that is that our international trade number is now better than \$35 billion and that international trade is now topping both agriculture and tourism as one of the economic functions of this particular State. And I would think that in terms of what it would mean for Florida for NAFTA to come into place, one of the things that we would have to consider is that our trade with Mexico is really relatively minimal compared to, say, your own home State or some of the other border States, or even for instance, Georgia. We have not had a substantial amount of trade with Mexico and we figure that—our studies would indicate that the top five products that Florida produces are actually also imported by Mexico, but from other parts of the United States, and we believe we have found a niche in terms of the enormous increase in trade that has already occurred between the United States and Mexico that is bottlenecking the border. And we figure that any additional trade that would come with the NAFTA—and there are some studies that would indicate somewhere between \$2 billion up to \$19.6 billion in the first year of a NAFTA would have to go in by sea or air. And we believe that Florida is particularly well placed to take advantage of that, and we are talking—\$1 billion is the equivalent of 20,000 jobs.

Also, the Governor led a trade mission to Mexico in June. We did meet with the Secretary of Agriculture and with a number of State Governors and other members of the Cabinet. I was terribly impressed by the fact that the Secretary of Agriculture of Mexico, Mr. Hank Gonzalez, asked that a liaison be established between Florida and his department to try to resolve some of these problems. It would seem to me that this is a potential opening to try, on a continuing basis, to come to some form of agreement for the benefit of both societies. I was also terribly impressed by the fact that everybody in the citrus culture industry—and I am talking Veracruz, Dermolepas, and Hank Gonzalez himself, were very anxious to see people from the citrus industry from Florida, because they believed that their citrus industry was sufficiently primitive and without technological or marketing skills that they could not make it without our participation and our help.

It also occurs to me that we have a potential for some tradeoffs here. Concentrates are very rarely used in Mexico, they go for fresh fruit. And it occurs to me that there is a market for Florida fresh fruit in Mexico and is something that we should address and give a reality test to.

The other aspect is, in my previous incarnation as chairman of the Immigration Commission of the U.S. Congress, it occurs to me that a NAFTA is the only catalyst we have for accelerated economic growth for Mexico, to try to eliminate the push factors that cause Mexican undocumented citizens to come to the United States. All of these things, I would think would have a beneficial effect on United States/Mexican relations and I am hoping that reasonable men would be able to resolve the obvious conflicts that always occur in a negotiated agreement where there are winners and losers. And I figure that the role of the State is to mitigate the losses of the losers and to enhance the winnings of the winners and that is what we are trying to do in Florida.

[The prepared statement of Mr. Asencio appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Forgive me, periodically I might interject a personal note. It does not come out of your time. But very briefly, there is the Vela family that came not too long after Columbus to south Texas, and my wife is part of the Vela family. They had a reunion—we had—because I am now attached to them through marriage. Over 2,500 came from around the world, all the way from Bahrain to Australia. But mentioning the citrus industry, the reunion barbecue was at the Laguna Seca Ranch, which was where the first citrus trees were planted in Texas. I do not know where we are in relation to Florida, but the first citrus trees in Texas were from seeds brought by one of the Spanish missionaries coming through there. And the Vela family planted the first citrus trees sometime during the 1600's at the Laguna Seca Ranch. The sad thing about it is that the ranch, as vast as it is, except for a spring, is not irrigated. So the citrus now is in other areas closer to the river than the Laguna Seca Ranch. I do not know if it is the same one, but there is still a tree—it does not give any fruit, it just sits there. I do not know how old it is—however old a citrus tree can be, this has to be the senior one of all of them.

But I did want to mention that when we talk about citrus, Florida, to some degree Arizona, California, and south Texas, that part of my wife's family were the initiators of the citrus industry in Texas.

And now it will be my happy privilege to recognize the distinguished Representative Lori Edwards, at this time—representative from the 65th District of Florida.

#### STATEMENT OF LORI EDWARDS, STATE REPRESENTATIVE, 65TH DISTRICT, STATE OF FLORIDA

Ms. EDWARDS. Thank you.

I have the privilege of representing in the Florida house 108,000 people along the U.S. 27 corridor, and that is citrus country. Today, you have heard about the billions of dollars that Florida agriculture pumps into our economy and the hundreds of thousands of jobs the citrus industry provides. But let us look beyond the numbers for a moment. Take a look at the communities that Florida citrus has built. If you were to take the time and get in the car and drive around in the area that produces citrus around Florida, you

will find clean air, beautiful landscapes, and more kids on the softball fields than you will on drugs.

NAFTA endangers the very hearts of these communities. And once you kill them, you cannot get them back. As far as citrus is concerned, this is not a unilateral agreement. As it stands, NAFTA offers no benefit to Florida's citrus industry. There is no potential expansion of Mexican exports and Mexican juice will not simply displace other foreign juice, it will just add to the drag on prices for all suppliers. Under fair conditions, Florida's agriculture can compete and hold its own against any other producer in the world, but there is nothing fair about NAFTA.

I have quickly learned as a State representative that there is nothing more obnoxious than someone who sits out here and complains and complains and complains and offers no answers. Well, we have solutions—just offer us an even playing field. We need harmonization of environmental standards, harmonization of labor standards, harmonization of safety standards. Low import prices pose more of a threat than volume surges, so beyond volume surge protection, we need a supplemental tariff rate snap-back based on price alone. And unless methods to track origin of fresh fruit are tightened, Mexico will serve as a conduit so other foreign countries can take advantage of this sweetheart deal.

The citrus industry has been severely challenged in recent years, but Florida's 14,000 citrus growers have survived because they are efficient. I am confident they will continue to survive and thrive, but please do not stack the deck against them or the communities that they have built.

Thank you.

The CHAIRMAN. Thank you very much.

Now it is my happy pleasure to ask the distinguished mayor of South Bay, Florida, the Honorable Clarence Anthony, to make his presentation. And I understand that charming, gracious lady at your side is your mother, is that correct?

Mr. ANTHONY. Yes.

The CHAIRMAN. We are very happy to have you, ma'am.

**STATEMENT OF CLARENCE ANTHONY, MAYOR, SOUTH BAY,  
FL, ACCOMPANIED BY IRENE ANTHONY**

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

As noted, my name is Clarence Anthony, mayor of the city of South Bay, a southern municipality on the shores of Lake Okeechobee. I am one of the municipalities that will be affected by any policies that are implemented by NAFTA in Congress.

I am here today to speak on behalf of not the industry, but the people of the Glades area because I am not that well off in regards to speaking on behalf of the industry, but the people of the Glades area who will be impacted most are those people who will find it more difficult to get a job than any of us that is in this room. Those include most people of black, African descent, or Hispanic descent. The unemployment rate of those people will increase, probably 40 percent in our area—and that frightens me and it will destroy our Glades community.

Agriculture is the stabilizing factor in our community, whereby jobs are available and municipal services are provided. The agricul-

tural industry in our area is an outstanding corporate citizen, providing generous benefits to not only the employees of the communities, but the communities themselves.

We are here today to discuss the NAFTA agreement between Canada, Mexico, and the United States. It is being touted as a creator of thousands of United States jobs because we will increase our exports to Mexico. Well I say "maybe" to that. We do know that Mexican agricultural exports to the agricultural products grown in our area will be impacted by that competition. The Mexican agricultural industry will, unquestionably, benefit from this arrangement, but the workers in our area, I am sure, will not. It matters little how good a product we produce if there is no market. We may as well destroy that product.

The NAFTA agreement, as written, will destroy thousands of jobs in my community. Do not let high-sounding rhetoric from large corporations and others who will handsomely benefit, cloud your responsibility to the small agricultural communities across the Nation. And I am very sensitive to the balancing act, as a public official, that you have to endure.

South Bay depends on agriculture. I have family members that work in the agricultural community. And because I am committed not only to improving America, but improving the Glades area, I wanted you to hear from somebody who took a kid off of welfare and put him through college and now he owns his own business, through the work of 30 years of agriculture. And no one can speak any better than my Mom, who is now working in that arena.

So if you will, please, Mr. Chairman, allow her—she is more short-winded than I am—if you will, 30 seconds.

The CHAIRMAN. We will be very happy to hear from you.

Mr. ANTHONY. Thank you, Mr. Chairman.

Mrs. ANTHONY. Thank you, Mr. Chairman. My name is Irene Anthony. I am a native of South Bay, Florida. I have worked for South Bay Growers for 38 years. I have raised six beautiful children; one is Clarence Anthony, mayor of the city I live in. All of them have good jobs and I am proud of all of them.

But this trade agreement, I am pleading with you all, it scares me because it could cause me and many more like me to be out of a job. And at my age and many more like me, training will be too late for me and I do not have the ability to pick up and leave and go somewhere else. And farm work is all I know, and I am really pleased with what I am doing.

I am just asking you all to, in making your decision, I ask you to please remember what I am saying. Thank you.

Mr. ANTHONY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. We appreciate very much you being here and your message to us. I assure you that all the members who will read the transcript will be very happy that you came to make a presentation.

Mrs. ANTHONY. Thank you.

The CHAIRMAN. I thank all the members of the panel. I appreciate you being here.

We now call Mr. Richard Schroeter, who is the acting Administrator of the Foreign Agricultural Service, U.S. Department of Agriculture. Mr. Schroeter.

**STATEMENT OF RICHARD B. SCHROETER, ACTING ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE**

Mr. SCHROETER. Thank you, Mr. Chairman, and members of the committee, it is a pleasure to be here this morning to present the views of the Department of Agriculture and the Clinton administration on the NAFTA agreement.

As Congressman Roberts said so well, if U.S. agriculture is to thrive, it must be oriented to global markets and the central focus of this administration is to attempt to preserve and enhance the income of our Nation's farmers by expanding market opportunities.

We believe that the NAFTA presents real progress on this front. It is a good, fair, comprehensive agreement that with effective side agreements that are currently being negotiated by Ambassador Kantor, will benefit U.S. farmers, businessmen, and consumers throughout the United States.

As we know, Mexico is already a major market, not only for all exports, but in particular U.S. agricultural exports. It is now our third largest single country market after Japan and Canada, with our exports rising from about \$1 billion 5 years ago to almost \$4 billion today. And what is not well-known is Mexico has become in recent years one of our fastest growing markets for high value products. In fact consumer-oriented processed products now account for about one-third of our total agricultural exports to Mexico.

In our view, the NAFTA will lock in and expand the trade gains that we have achieved since Mexico began to open up its economy in 1986. Also, improved economic activity resulting from the agreement will, in our view, boost income and stimulate demand for greater amounts and a greater diversity of food and feed products in Mexico. When NAFTA is fully implemented by the end of the 15-year transition period, we anticipate that United States exports of agricultural products will be between \$2 billion to \$2.5 billion higher than they are at present, whereas United States imports from Mexico will be in the range of \$500 to \$600 million higher than they are at present. So our trade surplus in agricultural areas should expand with the implementation of NAFTA.

We know of course that there are those in Florida and States nearby who are particularly concerned about the impact of NAFTA. We have heard some of that already. We know about the concerns in the horticultural sector, the concerns in the sugar sector, peanuts, and so forth. These concerns have been heard and are under discussion right now in Washington, as Ambassador Kantor pursues his negotiations on side agreements on import surges which could particularly affect agriculture, labor, and the environment. But I think it is worth pointing out, that as the provisions of the agreement take effect, NAFTA will increase market opportunities for United States horticultural commodities in Mexico. Mexican income growth will increase that country's consumption of fruits and vegetables which could limit their potential to expand their exports to us. It will also open up new export opportunities for horticultural exports in Mexico, and we are already seeing some indications of that, even in such products as fresh tomatoes.

Moreover, under NAFTA, tariff reductions for horticultural items are planned to provide a long transition period, up to 15 years in some cases, and automatic safeguard measures to protect producers of very sensitive fruits and vegetables from import surges. That would particularly affect tomatoes, eggplant, squash, and watermelons.

Let me point out as well that the agreement does not involve any compromise on stringent U.S. standards for food safety or animal or plant health. It does not affect United States import quotas for any country other than Mexico. And it requires no changes in domestic U.S. farm programs.

In closing, Mr. Chairman, I would just like to recap, if I could, a few of the agreement's major accomplishments involving trade liberalization for agriculture. First, and I think foremost, it will give the United States and with some exceptions, Canada, preferential access to the Mexican market. It will establish strong rules of origin to ensure that the primary benefits of NAFTA go to North American producers. It will provide stronger protections for agricultural inventions, patents, trademarks, and technologies. And, it will create a fair, quick, and effective process for resolving disputes on NAFTA violations among member Governments.

As we said at the beginning, to expand and prosper, U.S. agriculture needs growing export markets and new export opportunities. Mexico, in particular, represents an agricultural market, in our view, of tremendous potential. When the negotiations on the side agreements on labor, environment, and import surges are concluded and the NAFTA implementing legislation is ratified by Congress, hopefully, we in USDA believe we will have made significant progress in solidifying trade gains in our hemisphere and in laying a sound foundation for our trade expansion into the next century.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Schroeter appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Schroeter. We appreciate you being here on behalf of the Department.

The next panel, we have a larger group, but I apologize we only have limited capacity at the witness table. So we will divide the group by four. The first members of the first panel will be Mr. Charles Ranson, Floridians for NAFTA; Mr. Carl Loop, Loop's Nursery and Greenhouse and also president of the Florida Farm Bureau Federation; Mr. F.S. Duda, president, Florida Fruit & Vegetable Association, and Ms. Ellen Wine, South Bay Growers, Inc.

We will begin with Mr. Ranson.

#### **STATEMENT OF CHARLES R. RANSON, COCHAIRMAN, FLORIDIANS FOR NAFTA**

Mr. RANSON. Mr. Chairman, members of the committee, I am Charlie Ranson, I am cochair of Floridians for NAFTA. I welcome you to Orange County, my home county. I grew up here in the 1950's and 1960's when Orange County was predominantly an agricultural community. I worked in the groves and in the farms of Orange County and I recognize that today, those groves have become shopping centers, condominium developments, golf courses, upscale



houses, and theme parks. Orange County has changed, Florida has changed, this Nation has changed and continues to change.

The growth from the time that I left Apopka, the "Foliage Capitol of the World", in 1965, of international trade has been phenomenal. It has surpassed the traditional legs of the stool of Florida's economy. It is where our future lies. We are a global economy, and our ability and our willingness to adapt to globalization, to take advantage of the growth opportunities that exist for Florida while at the same time taking appropriate steps to safeguard and assure that we have a continued viable agricultural industry in Florida, are paramount.

Floridians for NAFTA, consisting of large businesses and small, believes that the NAFTA agreement as it exists and as we understand the safeguard agreements to be taking shape, provides sufficient safeguards. There are safeguard provisions of NAFTA that were designed specifically for Florida's agricultural concerns. A 15-year phase-in for sugar, the requirement that as Mexico becomes an exporter of sugar, that there will be displacements of imports from other countries, addresses sugar concerns. Citrus has been described to me by one of the senior researchers at IFAS, the Institute for Food and Agricultural Science at the University of Florida, as being a nonevent in terms of NAFTA. At the end of 10 years, 85 percent of the citrus tariff currently in place in the United States will continue in place. Studies done by IFAS also suggest that the tomato industry, a winter vegetable industry in Florida, through productivity gains, will continue to be competitive regardless of NAFTA or regardless of increased cultivation and low labor costs in Mexico.

In the post-cold war era as we adapt our economy, it is important that we send the messages in this hemisphere and beyond, that we will be a reliable trading partner; that we will be a reliable partner to negotiations that we enter into; and, that we maintain political and economic leadership, into the 21st century.

Mr. Chairman, members of the committee, in behalf of the companies and the people who benefit from international trade in Florida, who are leading the way in the growth of Florida's economy, we urge that as you consider this issue, you not only consider the implications for Florida's agriculture and the Nation's agriculture of NAFTA, but that you also consider the growth of the Nation's economy and Florida's economy in manufacturing and in services and in trade.

Thank you very much, Mr. Chairman and members.

[The prepared statement of Mr. Ranson appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Mr. Loop.

#### **STATEMENT OF CARL B. LOOP, JR., PRESIDENT, FLORIDA FARM BUREAU FEDERATION**

Mr. LOOP. Thank you, Mr. Chairman. My name is Carl Loop, I am president of Florida Farm Bureau Federation, an organization which represents all facets of agriculture in our State. I also own a wholesale nursery operation in Jacksonville and have timber interests in St. Johns County. On behalf of our more than 83,000 member families, I wish to express our appreciation for the oppor-

tunity your committee has afforded us to explain our concerns regarding the proposed North American Free-Trade Agreement.

As you know, the 1991 International Trade Commission study concluded that, under NAFTA, Florida will be the most adversely impacted State with regard to agriculture, and that fruits and vegetables, which make up the majority of our agriculture in this State would be the most adversely impacted commodities.

Early on, Florida Farm Bureau, as an organization, made a decision to work hard in the process of developing the agreement to assure that the concerns of Florida agriculture would be addressed. We listed our concerns in public statements before the International Trade Committee, the United States Trade Representative, the Secretary of Agriculture, and our congressional delegation. We also had input on the private sector advisory councils including the Agricultural Technical Advisory Committee of USDA/USTR dealing with fruits and vegetables. We took every opportunity to point out potential pitfalls for Florida agriculture to everyone involved in the negotiations.

We worked hard to increase our understanding of the potential impact of the agreement and to assure that our concerns are based on fact. Farm Bureau sponsored three grower tours to different parts of Mexico, along with growers, to be sure that we could gather first-hand information and we knew what the situation was in Mexico.

We were disappointed that many of our concerns were not reflected in the agreement when it was made public. After studying the draft agreement, our organization voted to determine that Florida Farm Bureau could not support NAFTA in its present form.

There have been a number of studies done, all projecting a negative impact on Florida agriculture. In fact, the most recent studies incorporating the most up-to-date data available, show that there is even a greater negative impact than was first thought.

A number of our commodities compete head-on with Mexico. We and the Mexicans are producing the same commodities at the same time of the year for the same markets. Many times, we have seen our prices drop drastically when Mexico comes into full production. This situation is made worse when Mexico dumps commodities onto the United States market through such things as consignment sales.

We are talking here about highly perishable commodities that are sold in fragile markets. It takes little to disrupt this market, and once they are disrupted, it is difficult, if not impossible, for prices to recover in the course of a season.

Two of our farmers' highest inputs stem from compliance with labor and environmental regulations. During the negotiations, we were led to believe that the disparity between what our farmers pay in these areas and what Mexican producers pay would be addressed in side agreements. To date, those disparities have not been adequately dealt with. Without concession in these areas, it will be difficult for Florida agriculture to compete.

As an organization, we support the principle of free trade and realize the rules which govern international trade are antiquated and need to be updated in order to give us access to foreign markets.

But NAFTA is not really a free-trade agreement, it is a managed agreement that treats different commodities differently.

We are also concerned about how the agreement will be policed and enforced. We know that Mexico has been a signatory of the GAAT since 1986 and still has areas in their trade that are not GAAT-legal.

Most of our farming operations in Florida are capital intensive. Growers have made high capital investments with the thought that their Government would protect them from unfair competition, and we must not betray that trust.

I would like to conclude by thanking the Florida congressional delegation for their support and the help that they have been in this; particularly Congressman Tom Lewis, Charles Canady, and Congresswoman Thurman. Thank you, Mr. Chairman.

[The prepared statement of Mr. Loop appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Loop. Mr. Duda.

#### **STATEMENT OF F.S. DUDA, PRESIDENT, FLORIDA FRUIT & VEGETABLE ASSOCIATION**

Mr. DUDA. Thank you, Mr. Chairman. I am president of the Florida Fruit & Vegetable Association, an organization that represents growers of Florida's vegetables, citrus, tropical fruits, strawberries, and sugarcane. I am also president of A. Duda & Sons, my family's farming operation that grows and markets many of the products I just mentioned in Florida, Texas, and California. At peak season, my family and I are responsible for the livelihoods of over 4,000 people who work with us growing, harvesting, packing, and shipping the fruits and vegetables we grow.

We greatly appreciate you and the other members of the committee taking time from your busy schedules to come to Florida and hear the very real concerns about the North American Free-Trade Agreement from people in our industry. FFVA also appreciates the opportunity to once again offer our views to the committee.

Ordinarily, I like to have experts sit up here and testify at hearings such as these, it is not something I enjoy doing. In fact, I am probably the only one here that likes your 3 minutes. But since you and other members came all the way to Florida for people whose livelihoods are at stake, I thought I had better make an appearance. NAFTA is a crucial issue for Florida agriculture. There is another reason why I am here too, and that is to speak for the little guys. Mr. Chairman, this agreement, as it is written, is going to hurt the small farmers in Florida. A company the size of mine is diversified. We have the flexibility to at least have a fighting chance against this agreement and its lopsided playing field, but A. Duda & Sons was not always a large corporation. We started as a small family farm, my grandfather and his three sons. So I am not here just for FFVA or for Duda, I am here to speak for the 39,000 small family farms, some of whom are probably going to lose their farms if NAFTA is approved by Congress as it is currently written. In addition to my remarks here today, FFVA also has a written statement that I ask to be included in the record of this hearing as an attachment to my prepared statement.

I think you will agree there have been very few industries around this country that have worked as hard as Florida agriculture on this agreement. There are very few industries in this country, especially in agriculture, who compete with Mexico head-to-head in the production of a number of commodities. Numerous studies have been conducted in recent years that clearly show that the Florida fruit and vegetable industry will suffer greatly as a result of NAFTA. The most recent report again showed that Florida will be affected the most.

For the past 2 years, Florida agriculture has attempted to work within the system to address its concerns with this agreement. Early on, we developed a set of recommended provisions for the agreement that were designed to minimize the potential damage to Florida's farms, farmworkers, and rural communities. Even when the agreement was finalized last year without most of what we asked for, we sought provisions in the side agreements to deal with our concerns. Throughout the entire negotiating process, we have tried our best to play a constructive role.

But we are now very near the end of the side agreement negotiations and it does not appear that they will contain anything to help our industry. In fact, there is a very real possibility that the side agreements on labor and environment could be used against us. We are still hopeful that the administration will negotiate a price-based safeguard mechanism for perishable crops. This has always been an important issue for us. The volume-based mechanism in the agreement in our opinion will not react quickly enough to our products' highly volatile markets.

Mr. Chairman, we have consistently supported the concept of a North American Free-Trade Agreement. Our concern has always been that it be done right and in a way that Florida agriculture can compete on a level playing field. Unfortunately, the agreement as it is currently written does not accomplish this. And in our opinion, no agreement is better than a bad agreement.

Today, you will hear directly from a number of people in our industry who are worried about their future. Their concerns are real and they are from the heart. From the beginning, you have been extremely helpful in making sure that those who were negotiating this agreement understood Florida's position. Our own congressional delegation has been nothing short of outstanding in advancing our issues. We greatly appreciate all your efforts and ask your continued help in addressing Florida's agricultural concerns.

Again, on behalf of FFVA, I thank you and the committee for coming to Florida to hear our views.

[The prepared statement of Mr. Duda appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Duda, we appreciate your contribution. Ms. Ellen Wine.

**STATEMENT OF ELLEN WINE, ASSISTANT GENERAL MANAGER,  
ADMINISTRATION, SOUTH BAY GROWERS**

Ms. WINE. Good morning and thank you for adding me on such short notice. My name is Ellen Wine, I am the assistant general manager of administration for South Bay Growers. I have brought with me today a lot of my friends and coworkers. We were con-

cerned about what was going on and we wanted to hear what you all had to say and hear what other members of the industry had to say. And with your permission, I would like for them to at least raise their hand.

The CHAIRMAN. If you will kindly have them raise their hand, everyone who came with Ms. Wine.

Ms. WINE. We traveled for 4 hours this morning.

[Show of hands.]

Ms. WINE. At South Bay—

The CHAIRMAN. You should run for something. [Laughter.]

Oh, they say that is Mr. Lewis' district. Well run for head of the—are you married?

Ms. WINE. Yes.

The CHAIRMAN. Have children?

Ms. WINE. Yes, I have four.

The CHAIRMAN. So I am sure you are president of the PTA.

We will be happy to hear from you, and we welcome all those who came with you.

Ms. WINE. At South Bay, we grow about 9,000 acres of lettuce, leaf and celery products in the winter months. We employ about 1,400 people in the season, this is just a few of them, and our payroll runs annually \$15 million to \$20 million—we are pretty big.

The North American Free-Trade Agreement scares us. If all things were equal, we would just see it as some more competition, we are used to that. Competition keeps us keen, it keeps us better at what we do. But all things are not equal under NAFTA.

Every day, myself and all these other people have to abide by the laws of the United States on wage and hour, the environment, safety, worker protection standards—every day there are more, there are just volumes of them. And we do not mind it, we deal with it every day.

But I am a mother, and I am concerned about what I put on the table for my family. My company last April or so had a compound that was used improperly by accident on some endive and escarole, I think it was about 17 acres. We had a choice, we could have probably ignored it, nobody would have caught it, nobody would have been harmed. But we chose to obey the law. We incurred the cost of testing at \$3,000 a test to see if this compound came within the limits set by the various agencies. Well it was kind of a close call, we probably could have done it. But we did not do it, we disked it up, and that decision cost us more than \$250,000, when you consider the market price of the vegetables and the growing costs incurred. But we did it because we are conscientious about our food supply. Can anybody guarantee me and the other people in this room that everybody will be as conscientious about the food supply? I do not think so.

The other issue, the wage issue, they talk about a lot of the foreign labor makes anywhere from \$2 a day to \$2 an hour. Well our least productive employees are allowed to make \$4.25 an hour. And then you tack on that workers' comp and the various taxes and insurance, and the cost just goes up and up. And a lot of our most productive workers make \$8 to \$9 an hour and up.

I do not know every one of our employees by name, but I have them on my mind all the time. I feel responsible for them. And if

we cannot make sure that NAFTA protects farming and each one of these people, I do not feel like I have done my job. When I see these people out on the town with their families, in the grocery store, whatever, I wonder what is going to happen to them.

You met Mrs. Anthony, and she is pretty representative, and she has a very legitimate fear about the retraining. A lot of these people have language barriers and a low education. And I wonder what our company can do for these people to maybe soften the impact of this thing if it hits. I have been toying around with a literacy program for our company. It would cost us a lot of money, but I think it is worth it. Now my bosses will probably get upset.

If you think that working in the fields is unskilled labor, I invite any one of you to go out in the fields—I have done it sporadically. You have to be part biologist, part chemist, and a whole lot lawyer. You have to know when to harvest, when not to harvest. You have to know what fertilizer to use, what not to use and how to stay within the regulations. You also have to get up very early every morning, rain or shine—it is not just a job, it is something that you love, it is something that you do, it is your life.

So we all understand the importance of having our neighbors have strong economies and I think that there is a way to accomplish that without devastating our own economy and devastating this particular sector of people. So I think we need to work on NAFTA a little bit more, make it a little clearer. I know it is a tough job, but I have faith that you all will see this through and make sure we are protected.

Thank you.

[The prepared statement of Ms. Wine appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much and thank all of you on this panel. We appreciate your testimony.

Ms. THURMAN. Mr. Chairman.

The CHAIRMAN. Yes.

Ms. THURMAN. During Mr. Ranson's statement, he made some comments about IFAS and some reports that IFAS had said that this may not be so bad. I actually have a report that was done in September–October of 1992, from another person from IFAS that I would like submitted into the record as well, that specifically says maybe just the opposite.

The CHAIRMAN. Without objection, your enclosure will be inserted in the record.

[The report follows:]



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### NORTH AMERICAN FREE TRADE AGREEMENT, CARIBBEAN BASIN INITIATIVE, AND FLORIDA AGRICULTURE<sup>1</sup>

Leo C. Polopolus

#### Introduction

Agriculture has been and possibly will continue to be a major creator of jobs and wealth for the State of Florida. Historically, Florida agriculture generated income and jobs because of the proportionately large amount of its agricultural production exported to other states of the nation.

Trade liberalizing agreements with countries with climate similar to Florida send chills up and down Florida's agricultural spine because of the uneven playing field on such matters as environmental regulations, wages rates, and worker benefits. Tariff rates are deemed by our producers as only a small part of the equation needed to be equated and still have fair competition. The bottom line is that without some semblance of equality on the full set of trade, labor, and environmental issues, lowering just tariff rates to zero on both sides of international borders will merely provide easier access of foreign horticultural and sugar products into United States markets, reducing the production, employment, and income flows from Florida agriculture.

Whether you subscribe to free trade theory or not, one must look at the likely realities of trade liberalization as it affects Florida agriculture. This is not a game, but a real contest where economic fortunes and jobs can be gained or lost, largely in response to changes in the rules of international marketing. These rules are written in the form of

"agreements", such as the North American Free Trade Agreement or laws such as the Caribbean Basin Initiative.

#### International Trade Policies

Since the highly protective policies of the Smoot-Hawley Tariff Act of 1930, the United States has moved in the gradual direction of trade liberalization over the past sixty years. This gradual process of trade liberalization has involved such steps as giving the President of the United States the authority to reduce tariffs (up to certain limits), identification of certain countries to receive lower tariffs with "most favored nation" status, and participation in unilateral, bilateral, and multinational trade agreements to lower tariff and non-tariff barriers.

#### The Caribbean Basin Initiative

Prior to the CBI program in 1983, there was a mixed pattern of duties levied upon horticultural commodities and products imported into the United States from the CBI region. Duties were previously in effect for such items as orange juice and lime juice, but not generally fresh vegetables. Thus, the CBI program technically removed the remaining tariffs for all horticultural commodities and products imported from beneficiary countries of the region.

<sup>1</sup>Condensed version of paper presented before the Florida Chapter of Farm Managers and Rural Appraisers, October 21, 1992.

The CBI law did permit duty free imports of sugar on the condition that sugar imports from the CBI region not interfere or impair the price support program for sugar as mandated by the Congress. Thus, the CBI program has the intent of guaranteeing beneficiary countries a reliable, but limited market for their sugar at preferential (U.S.) prices.

As it has turned out, the CBI has not had a severe adverse economic impact on Florida's agricultural industries. Their sugar quotas in the 1980s and early 1990s have been below previous historic levels. Exports of vegetables, for example, from the Caribbean and Central America, beneficiary countries of the CBI, have not increased sufficiently to offset their downturn in sugar quotas to the U.S. market. Thus, the net effect for most CBI countries has been a reduction in value of agricultural exports to the United States.

The Dominican Republic and Guatemala have been important sources of vegetable imports into the United States since the CBI was initiated. But aggregate imports of vegetables from the Dominican Republic and Guatemala are substantially below the level of vegetable imports from Mexico.

The CBI has had the effect of stimulating duty-free imports of orange juice from Belize, Costa Rica and the Dominican Republic. In fact, orange juice imports from duty-free Belize for the first seven months of 1992 were valued at \$13.1 million, compared with orange juice imports from Mexico (where the duty now must be paid) of \$5.1 million over the same period. The imports of orange juice from Belize in 1992 were more than three times the value of imports from Belize in 1991.

With regard to ornamentals imports, two countries (Colombia and the Netherlands) account for roughly two-thirds of all foreign imports of nursery products into the United States. However, Canada, Costa Rica (a CBI beneficiary nation), Israel, and Mexico are the other major international suppliers of cut flowers and nursery stock for the United States. Import duties are zero for CBI countries, as well as Israel and Canada under bilateral free trade agreements.

### North American Free Trade Agreement

The "Agreement" has now been drafted by the three countries and is under review by the Congress. NAFTA sets out separate bilateral undertakings on cross-border trade in agricultural products, one between Canada and Mexico, the other between Mexico and the United States. Both include special transitional safeguard mechanisms. Trilateral provisions between the United States, Mexico, and Canada will apply in areas of domestic support for agricultural goods and agricultural export subsidies.

### Tariffs and Non-Tariff Barriers

If and when NAFTA goes into effect, Mexico and the United States will eliminate all non-tariff barriers governing agricultural trade. The current non-tariff barriers will either be converted to "tariff rate quotas" or to ordinary tariffs.

Tariffs on a broad range of agricultural products will be eliminated immediately. Roughly one-half of the U.S. - Mexico bilateral agricultural trade will be duty free when the NAFTA goes into effect. All tariff barriers between the U.S. and Mexico will be phased out over a maximum of 10 years with the exception of corn, dry beans and non-fat milk for Mexico and sugar, orange juice concentrate and peanuts for the United States.

### Special Safeguard Provision

During the first 10 years of NAFTA, a special safeguard provision will apply to certain products. A NAFTA country may invoke the mechanism where imports of such products reach "trigger levels" set out in the agreement. In such circumstances, the importing country may apply the tariff rate in effect at the time the NAFTA went into effect or the then current Most Favored Nation rate, whichever is lower.

### Export Subsidies

The three countries acknowledge that the use of export subsidies within NAFTA are not appropriate, except when used to counter subsidies from non-NAFTA countries.



### Agricultural Marketing Standards

The NAFTA insures that no less favorable treatment will be given to agricultural imports than are provided for domestic agricultural products with regard to classification, grading, or marketing provisions.

### Resolution of Commercial Disputes

The three countries will work to develop a mechanism for resolving private cross-border commercial disputes involving agricultural trade. A trilateral committee on agricultural trade will be established to monitor the implementation and administration of the NAFTA provisions.

### Health and Sanitary Standards

The health and sanitary regulations of the United States will continue to apply on food and agricultural imports from Mexico and Canada. Imports will still be required to meet all standards set by U.S. regulatory agencies.

### Rules of Origin on Transshipments

Rules of origin have been developed to prevent non-NAFTA countries from benefitting from trade preferences under the agreement. The rules of origin used in the Canadian Free Trade Agreement form the basis for the rules in NAFTA. In general, the rules permit products to receive NAFTA benefits as long as foreign ingredients make up less than seven per cent of the value of a processed commodity.

### Horticultural Products

Mexico is expected to obtain significant benefits from U.S. tariff reductions in a number of important commodities. These commodities include, but are not limited to, winter vegetables, citrus, and melons. These are obviously the commodities that are critically important to Florida agriculture.

In order to minimize the adverse impact of increased imports of sensitive commodities, both the United States and Mexico will employ either the 15 year transition period or the 10 year tariff rate

quota safeguards for sensitive products. For example, the United States will apply both a tariff rate quota and a 15 year phase out for orange juice.

### Sugar

The "agreement" will protect Florida and other U.S. sugar producers and the sugar program for at least the first six years of the transition period. Mexico will be able to increase its exports from roughly 7,000 metric tons to 25,000 metric tons over this period, but only if it becomes a net exporter of sugar. In any case, an increase to 25,000 tons is not enough to jeopardize the operation of the sugar program.

In the seventh year, however, Mexico will be allowed to ship up to 150,000 tons of sugar into the U.S. market (and this number will increase by 10 per cent each year), provided again that Mexico is a net exporter of sugar. In a real slip-up by United States negotiators, Mexico will be permitted an unlimited sugar quota in the United States market if they become net exporters for two successive years following the sixth year of the "agreement". This situation could likely shut out other foreign sugar suppliers to the U.S. market and impair the integrity of the sugar price support program.

### Labor Migration and International Trade Policy

Changes in international trade policy, as suggested by NAFTA, can affect farm labor markets in Florida in two major ways: (1) by reducing the demand for domestically produced agricultural products and thereby shifting the demand for farm labor downward; and (2) by changing the incentives for illegal entry into Florida and the United States, thereby causing labor supplies to go up or down.

This discussion will concentrate upon the second issue of likely labor migration of farm workers into the United States. Thus, the question we seek to address is "will NAFTA reduce or increase the flow of illegal workers into Florida and elsewhere in the United States?"

While one would expect free trade between nations to equalize factor prices over

time, the wage rate differential between Mexico and the United States is so large that the incentive to illegally enter the higher priced labor market (the United States) will continue unabated after the NAFTA agreement is ratified by both nations. More significantly, it is expected that agricultural production of fruits and vegetables in Mexico will increase following the ratification of NAFTA, causing increased labor migration within Mexico to supply labor requirements for the expanded production. Since migrant workers will be employed in Mexico during the months of January through April, many will likely continue their migration into the United States for Spring and Summer work. Many of these workers will stay in the United States and try their luck at farm work in the following seasons in Florida where wage rates for farm work are considerably above the U.S. average.

Thus, NAFTA will likely have the effect of increasing both trade flows and labor

flows from the same direction (Mexico). This is in contrast to the traditional theory which states that trade in commodities is a substitute for migration.

#### Concluding Remarks

Florida agriculture has been able to cope with the competitive effects of a one-way free trade deal in agricultural products with Caribbean and Central American nations under the Caribbean Basin Initiative. Florida agriculture will not be so fortunate under the terms of the North American Free Trade Agreement involving Mexico. While there are various safeguards and slow-downs to the full impact of the "agreement", it is certain that Florida agriculture will experience adverse economic situations for tomatoes and other vegetables, citrus, strawberries, peanuts, and sugar, among other commodities.

*Palopolus*

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The CHAIRMAN. The next panel, we have Mr. Neitzke, I understand he will be accompanied by counselor Bert Peña; Mr. Phillip Herndon, who will be accompanied by Bobby McKown; Mr. David Neill, accompanied by Wayne Hawkins. And we also have been informed that Mr. John Holmes has a time constraint. So with the permission of the other witnesses, we are going to list him on this panel in order that we might accommodate his travel schedule. Mr. Neitzke, we will be very happy to hear from you.

### **STATEMENT OF JACK NEITZKE, MEMBER, GULF CITRUS GROWERS ASSOCIATION**

Mr. NEITZKE. Mr. Chairman, my name is Jack Neitzke, I am a small citrus grower from south Florida and a member of Gulf Citrus Growers Association.

It has not been many years ago that our production costs were \$250 to \$300 an acre. Our production costs today are now running \$1,100 to \$1,200 an acre, and a good portion of that is either direct or indirect cost of Government in our farming operations.

This NAFTA, as it is written, is so ominous to us that it is being discussed in bank board meetings, by suppliers, by local government departments, in budgeting sessions, social gatherings, and it is on everybody's mind. All of a sudden, long-term lenders have pulled in their horns by reducing loan limits on citrus groves. They have stopped making loans on vegetable operations. Local banks have retracted from agricultural lending activities, which has been helped along by FDIC and OTS. The real estate market in south Florida for agriculture is basically dead. Everybody knows you are going to do NAFTA—the present draft as proposed sells us, the entire south Florida agricultural industry and communities, down the river.

We ask for what purpose? Why is this happening to us? What have we done to incur the wrath of Washington? This is not just an issue that affects just me and my fellow citrus growers, we are talking about an issue so big and encompassing that all people serving agriculture and supplying south Florida agriculture are losers. Many communities and local governments are tied directly to the fortunes of agriculture.

I, and many other in south Florida like me, have recently expanded to replace those lost acres in north Florida—lost to the freezes of 1980. In doing so, we have accumulated considerable debt. In my case, I have invested my life savings with the knowledge of the markets, the general economic conditions, and the future outlook that prevailed at the time. Along comes NAFTA. No matter what you are told, Mexico will compete directly with us in the same marketing windows. As basic producers, we cannot pass additional costs on to the consumer. Everyone, including local, State and Federal Government takes their cut and we get what is left. If we cannot pay our bills, everyone loses. The biggest loser is jobs.

I am a small grower, an insignificant part of the citrus industry; yet, I pump over \$1½ million into the economy annually. If I am allowed to survive, that amount will be \$2½ million in 3 to 4 years at today's dollar values. These costs include all of the goods and services of production, harvesting, hauling, packing, processing,

and selling. These do not include interest on debt. Multiply the effect that my small 600 acres over the 791,000 acres of citrus in the State of Florida and you begin to understand the impact to the economy. All of these dollars involve many jobs.

We need that level playing field that everyone has alluded to. We cannot let non-NAFTA countries flow their product through Mexico and into our country unimpeded. Mexico is a large user of citrus, but what keeps them from sending all their citrus to us to get export dollars and then buy cheaper citrus from other countries? We pay assessments in our citrus industry in the State of Florida to run our industry and to advertise our product. This franchise belongs to me and all like me in Florida. If they want part of that market, make them pay for their share. My share this year alone was over \$30,000.

We have asked for safeguards and snap-backs based upon price, volumes will not work. We had a taste of that this year and we could not pay our expenses. Our commodity is extremely price-sensitive. A small increase in supply at the wrong time can have devastating effects on price. We need that phase-out period, but we do not want you to give away the store on the front end. We need 5 years on that front end, it would also give Mexico a chance to get their house in order. There is no benefit to the Florida citrus growers in this agreement.

If you want Mexico to have an incentive to speed up their program, levy a tax that is equivalent to the cost differential of labor, workmen's comp, State and Federal unemployment tax, social security, medicare, health plans, record retention, liability, EPA regulations, recordkeeping, worker safety and training, safety equipment, portable bathrooms, underground tank removal, water and air quality, endangered species, and it goes on and on and on and on. Levy that tax per box or per gallon based upon that differential. As Mexico improves their conditions and narrows the margins, reduce the tax accordingly. I do not want to be dependent upon another foreign country for my food supply. What about my food safety, what about the jobs lost? We need these side agreements to survive.

Normally speaking, 6 days a week I am in a pair of blue jeans and I am in the field. I hoe my orange trees, I drive tractors, I have a small operation. I have a set of threads like these to go to marriages, to go to funerals, and to go to church. This definitely is not church; I hope we can make a good marriage and I do not want it to be my funeral.

Thank you for the opportunity and thank you for the time that you have taken to spend with us.

[The prepared statement of Mr. Neitzke appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Neitzke. Mr. Hern-  
don.

**STATEMENT OF PHILLIP L. HERNDON, CHAIRMAN, GOVERNMENTAL AFFAIRS COMMITTEE, FLORIDA CITRUS MUTUAL, ACCOMPANIED BY BOBBY F. McKOWN, EXECUTIVE VICE PRESIDENT**

Mr. HERNDON. Thank you. Good morning. My name is Phil Herndon, I am a citrus grower and a citrus processor. With me today is Bobby McKown, executive vice president of Florida Citrus Mutual.

I am appearing today on behalf of Florida Citrus Mutual, California Citrus Mutual, Citrus Grower Associates, the Florida Citrus Packers, the Florida Citrus Processors Association, the Florida Department of Agriculture, the Florida Department of Citrus, the Florida Farm Bureau Federation and the Indian River Citrus League. I will quickly summarize my statement and ask you to put the whole statement on the record.

Our industry is confronted with the serious challenge of adjusting to new conditions in the world under NAFTA. World supplies are at an all-time high, cash prices for fruit in the spring of 1993 were at history-making low levels. Pressures from new citrus suppliers abroad will increase while regulatory requirements at home will continue to place us at a competitive disadvantage. Mexico has not stood idly by. While Brazil, the world's largest producer, is expected to market a record crop this year, Mexican output increased by 50 percent in 1993. Mexican acreage is equal to the acreage of Florida and an enormous amount of it is young trees that have a lot of room to grow, and when trees grow, they have the ability to put more fruit on.

It is imperative that we strive to keep NAFTA from undermining the industry. Florida Citrus Mutual and others have supported the total exclusion of citrus from the coverage of the agreement and also urged in the alternative that the phase-in period for citrus tariff reduction be extended from the current 15-year level to 20 years. Maintenance of the U.S. tariff for 20 years is central to the amortization of the citrus debt—because of the industry's recent grove investments which were designed to increase our competitiveness by moving many Florida groves to areas which are not as susceptible to the periodic freezes. In the current trade talks, however, Mexican and United States negotiators have agreed to a 50-percent reduction in tariffs for a quota level in the first year of the agreement and further reduction in the tariff over 15 years during which the quota and overquota tariff reductions will intersect and decline to zero. In light of these drastic tariff reductions, the following steps must be undertaken to prevent rapid deterioration of our industry:

One, there should be a tariff safeguard price trigger mechanism for the types of production surges which result in precipitous and destructive price declines. Such a safeguard has always been built into the old citrus tariff under application of specific rather than ad valorem rates of duty. Without that mechanism, there must be a side agreement which provides for tariff reduction snap-back when Mexican import prices, as reflected by prices on the commodities market, fall below break-even price for Florida growers. This price trigger safeguard mechanism must be an alternative or a supplement to the safeguards incorporated in article 8 of the agree-

ment, which addresses only volume surges from NAFTA countries and fail to account for price effects.

Two, all Mexican labor and environmental standards applicable to citrus production should be harmonized with United States standards.

Three, the U.S. Department of Agriculture needs to make sure we enforce phytosanitary laws.

And four, an accurate, timely statistics gathering mechanism must be implemented by the U.S. Customs Service and the U.S. Department of Agriculture.

The livelihood of several hundred thousand people in Florida is critically at risk, and for many of these we do not have very many employment alternatives.

Thank you, sir.

[The prepared statement of Mr. Herndon appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Mr. McKown, do you have a statement?

Mr. McKOWN. No.

The CHAIRMAN. Thank you very much. Mr. Neill.

**STATEMENT OF DAVID NEILL, PRESIDENT, TRIANGLE FARMS,  
AND PRESIDENT, FLORIDA TOMATO EXCHANGE, FORT  
PIERCE, FL**

Mr. NEILL. Thank you, Mr. Chairman. I think what we did to raise Washington's ire against us is that we pay our taxes and are producers. I do not think they like us very well. I am going to summarize my statement but would like it entered in whole in the record.

The CHAIRMAN. All the statements will appear in their entirety in the record.

Mr. NEILL. Thank you, sir.

I have been farming since 1972. We grew 800 acres of tomatoes last year. I guarantee you it will not be that many this year because we lost a tremendous amount of money due directly to the Mexicans importing and dumping their product on top of us.

I agree with everything these gentlemen have said. I am not going to go back over it, you have heard it, you are going to hear it some more. One of my biggest concerns, beyond the marketing unfairness, is the ability for the Mexicans to use pesticides that we cannot use, have not used, and hopefully never will use. Their unfair cultural practices are totally unrestricted. The testing at the border is inadequate, there is no way they can test these residues, pull a load back before it is already in the marketplace. And it is not fair that the American Government tells me as a farmer "you will protect the American people"—and this is what I should do, this is my responsibility as a farmer, to farm safely for my workers, for the public—and turn right around and allow this stuff to be brought in. It is not right, it is not fair, and I do not see how our Government can allow it to happen.

Gentlemen, I definitely am against NAFTA, the Florida tomato committee is against NAFTA as it stands, and we would appreciate it if you all would consider making this a fair-trade agreement, not just a free-trade agreement that will sacrifice us and our industry.

Thank you for allowing me to make my comments.

[The prepared statement of Mr. Neill appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you, sir. Do you have a statement, Mr. Hawkins?

Mr. HAWKINS. Yes, sir.

**STATEMENT OF WAYNE HAWKINS, EXECUTIVE VICE  
PRESIDENT, FLORIDA TOMATO EXCHANGE, ORLANDO, FL**

Mr. HAWKINS. Mr. Chairman, Mr. Roberts, members of the committee, I would like to welcome you to Florida, thanks for coming down to meet with us. It is very nice for you all to come down on a Saturday morning for this hearing, which gives growers and shippers an opportunity to see how their Government performs. Many of these people do not have the opportunity of going to Washington on many occasions.

My name is Wayne Hawkins, I am a native Floridian. I was born on a farm in Broward County and have been involved in agriculture all of my life. For the past 19 years I have been executive vice president of the Florida Tomato Exchange, a nonprofit agricultural cooperative association whose members sell more than 50 percent of the domestically grown tomatoes for fresh market in the United States each year. In 1992-1993, Florida shipped more than 65 million 25-pound cartons of tomatoes with a farm value of more than \$570 million.

Numerous Government studies have shown that fresh Florida tomatoes and other perishable agricultural commodities will be the most adversely affected industries by NAFTA. One study predicts that Florida will lose 25 percent of the tomato production and 8,700 workers will lose their jobs the first year. Other figures estimate the job loss to be more than 50,000 workers when you include the other perishable commodities. A trade agreement that will cause such great unemployment will be devastating for the State of Florida.

The Florida tomato industry is not opposed to free trade, but to have free trade, you must have fair trade and NAFTA does not provide for fair trade. To have fair trade, you must have equal or similar inputs to trade. This is not true when comparing Mexican producers with Florida producers. Their salaries are only a fraction of ours and numerous Government regulations imposed on Florida producers are nonexistent in Mexico. These problems are not addressed in NAFTA. To compound the problem further, Mexico finally became a member of GATT in 1986 but totally ignored most of the rules. It is reasonable to assume that they would do the same thing with NAFTA if it is approved.

Also, the U.S. Government has two sets of regulations; one for domestic producers and another for imports. A couple of examples are the Agricultural Marketing Agreement Act of 1937, as amended. It requires imports to meet the same terms or conditions of grade, size, quality or maturity that are being imposed on domestic producers under a Federal marketing order. This amendment introduced by the late Senator Spessard Holland was known as the golden rule amendment. The USDA adds the word "minimum"

even though it does not exist in the law. And this totally negates the provisions of the golden rule amendment.

The Tariff Act of 1930 requires all imports to be labeled and identified to the ultimate consumer. Perishables are exempt from this provision. If this rule was enforced, we could tell consumers what chemicals Mexico sprays with and intelligent people would not buy their products.

Just 2 years ago, the tomato industry in the United States organized a joint effort to amend the U.S. grade standards for fresh tomatoes so there would be uniformity in sizing regardless of where the tomatoes were grown. This is very important if you are going to have orderly marketing. USDA exempted Mexican imports from this change and again created chaos in the wholesale marketplace.

Rules under the Perishable Agricultural Commodities Act are enforced differently for Mexico than they are for the United States producer.

These are just a few, and time will not permit me to itemize others. None of these are addressed under NAFTA. The NAFTA is a bad trade agreement. It is not good for Florida agriculture, it is not good for working people. Thousands will lose their jobs. Why try to fix a bad agreement with additional side agreements that do not really address the real problems?

This administration was elected on a promise of change. All you heard was "it is time for a change." The NAFTA is a carryover from the previous administration and it is not good for many Americans. Let us implement the change, throw out a bad agreement, go back to the trading table and write a new one, hopefully a better one.

Mexico has spent in excess of \$45 million lobbying in the United States to get NAFTA approved. It certainly must strongly favor the Mexicans or this kind of money would not be spent.

The President as a candidate said he wanted change, he wanted to change the policy of foreign lobbyists becoming high-ranking Government officials. Yet he appointed a man for Assistant Secretary of State—who was approved this week by the way—in charge of foreign trade, who is a partner in a firm that received \$4.2 million from the Mexican Government last year to lobby for NAFTA. His boss was listed in the Wall Street Journal as the top lobbyist for the Mexican Government in the United States. The Mexicans now have a high-ranking desk in the State Department. What we need is an American desk in the State Department.

I personally wrote the President a two-page letter on this appointment and received a two-sentence reply signed by Bill Clinton saying he was going to appoint the man anyway.

It is about time the U.S. Government did something for its own citizens instead of foreigners. We really are not asking for very much. All we want is a fair chance to market our product in our own country.

I will close with a question. The latest Congressional Budget Office report estimates that NAFTA, if approved, will cost the U.S. Government \$40 billion to implement. I would like to know where we are going to get this kind of money. Thank you, Mr. Chairman, for allowing me to testify this morning.



[The prepared statement of Mr. Hawkins appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Mr. MCKOWN. Mr. Chairman, might I just offer one clarification for the record, if I might, just to show you the sensitivity of the pricing structure?

The CHAIRMAN. Yes.

Mr. MCKOWN. The price trigger mechanism that we requested in the side agreement is so important because citrus is so price-sensitive—in other words, if you and I are selling citrus in juice form to our customers and a competitor offers a 1 percent discount, that customer is going to call us and talk to us about it; if he offers 2 percent, we stand a good chance of losing him; if he offers a 3 percent differential, I will guarantee you, you and I would lose that sale unless we met it. So price trigger is very important in this and I respectfully request your assistance as we address this important issue. I know the negotiators are working on that and we will continue to work within this process.

I thank you for coming to Florida.

The CHAIRMAN. Thank you very much. We will pass that along.

Let me just mention here, as I said in the beginning, this agreement was negotiated by the previous administration and side agreements are being negotiated by this administration. When you say “the Government” or you say “Washington”, it is unfair to us. That was not this group that is here. Somebody else did the work. [Laughter.]

Mr. HAWKINS. Mr. Chairman, I certainly understand that, but generally a farmer, when somebody from the Government shows up, he is the Government. It does not matter what branch he is from or how long he has been there. [Laughter and applause.]

The CHAIRMAN. I do not deny that.

Mr. Holmes, we will be happy to hear from you, sir.

**STATEMENT OF JOHN HOLMES, SENIOR VICE PRESIDENT AND SENIOR LENDING OFFICER, FIRST BANK OF CLEWISTON, CLEWISTON, FL**

Mr. HOLMES. Mr. Chairman, you already have my statement, so I thought I would concentrate from a banker's point of view of the effects of NAFTA.

I am senior vice president and senior lending officer for the First Bank of Clewiston. From a banking point of view, NAFTA will have a very severe negative impact on bank customers. For a lot of farmers, their liquidity is their bank, the assets, the land, the equipment, et cetera they have to produce the crop. NAFTA will curtail their liquidity for many farmers, by lowering their borrowing base. This is true because the projected income from a crop will decline. Therefore, the amount that I can reasonably expect to loan and get repaid will decline.

Without being an alarmist, this effect permeates through the whole economy and the hemorrhaging gets worse and worse each year. My customers are already handicapped by higher wages, tougher environmental laws, a \$20 per acre charge to assist in Everglades restoration. You take away their liquidity and you might as well throw out the baby with the bathwater.

Thank you very much.

[The prepared statement of Mr. Holmes appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir.

Mr. Neitzke, let me mention that I have already had my Waterloo in the citrus industry. In a business deal, I inherited a small orchard of the most luscious, beautiful Texas navel oranges you could ever imagine. We harvest through a shed. So I questioned the size of the crop, because I had been out there and I saw that it was a bountiful crop. So I called my friend, Lee Akin, from the shed. He says, "Well let me ask the crew leader and see what happened." Next time I saw him over at the watering hole, downtown Mission, Texas, he said, "The crew leader told me that there was not any fruit on the trees six rows deep." It had all been harvested by people passing through on the county road. [Laughter.]

So I sold the orchard. I did not want to risk someone else harvesting my fruit. Now and then I pass through there and there is a subdivision. One of the witnesses, Ms. Wine, I think, mentioned that it kind of hurts you to see what was your land now is a subdivision with houses on it. I might mention at this time, my family is, oh, 12 years short of being 400 years in the area where we live in. There was an old saying that I heard from my grandfather—my family was basically into cattle since the beginning—but there was an old Spanish saying that if you go on the land and you do not feel the vibration inside, you do not belong. It is not going to work for you. I think this is what Ms. Wine said in a different manner. We are sensitive to this, and we know what you are talking about. But we are not the ones that wrote or negotiated the agreement. We will have some influence, I hope, on some side agreements. But even those are being negotiated at this very time by negotiators from the administration, not by us.

Mr. ROBERTS. Mr. Chairman.

The CHAIRMAN. Yes.

Mr. ROBERTS. I would like to comment with an observation in regard to the concerns that David and Carl have brought up here in regards to food safety. When I came to the Congress in 1980, my job was to get the wheat price up and the deficit down—we sure screwed that up. But it does not mean that we are going to stop trying. I was appointed by the Republicans, and I think the chairman had something to do with it, to be in charge of an animal they let out of the chute every rodeo time in Dodge City called FIFRA, the Federal Insecticide, Fungicide, and Rodenticide Act. I just want to share, David and Carl, that we are going to try to make every effort to protect you from any imported product that has any pesticide, fungicide, rodenticide or any 'cide on it that cannot be used in the United States. We are also trying to achieve some kind of food safety compromise that goes to a negligible risk, a reasonable risk that would protect the public and still allow you to use the agricultural tools that you must have to produce your crop of fruits and vegetables that the National Academy of Sciences says every American ought to eat. And we are going to try to do that. It has been a very tough row to hoe.

The other observation I wanted to make was that I have about 40 counties involved in this flood that you have been reading about,

and while you have read about the Missouri and the Mississippi, last weekend I was on a helicopter tour with Senator Dole of the area, and I am concerned about all of the major metropolitan areas, but I am more concerned about the small communities in my district, 500 strong, 1,500 strong, who have lost their water and sewer capability, roads, and bridges, and their main streets are underwater. One of those is Osborne, Kansas. Osborne, Kansas is a county seat—and by the way, you keep talking about trees and citrus, I think I have six trees in my district, I am not sure. [Laughter.]

I have more than that, but I think you can understand the Great Plains.

Osborne, Kansas, took a look at the potential market in Mexico. They have something called Osborne Industries, which decided to get into the hog business. They said, "We make hog pens, we make hog coolers, we make anything to do with hogs. We have a hog warmer." Mr. Chairman, do you know that the hog warmer business has been discovered by those folks who sell reptiles. I did not know this, but the biggest growth industry in terms of specialty products are snakes. Why anybody would want to buy a snake and keep one for a pet is a little bit beyond me, but people do that. And so the hog warmer, now if you have the doggone thing, is exactly what the reptile producers or the snake farms want and what the people who buy those critters want to warm up the reptiles and the snake eggs—I am not making this up. [Laughter.]

And so we have a growth industry there. I do not know how many snakes they buy down in Mexico, but we have 200 workers in Osborne Industries, and the president of the outfit says if we pass NAFTA, we will have 400, then we will have 600, because 20 percent of their product is going down there. Now in Kansas, like in Florida, or any small community, if you are involved in agriculture, you are a small manufacturer and we have the talent to do that kind of thing. And so when Mayor Anthony and his mother, who has probably made the best and most pertinent testimony that we have heard today in terms of jobs and future, are talking about what NAFTA could do to you, in Kansas we are taking a doggone hard look at what NAFTA can do for us for the very same kind of reasons. Now Osborne is going to go through a very difficult time with FEMA trying to get back on its feet and one of the hopes of that small community is Osborne Industries.

Now the trick is going to be how on Earth do we make sure we benefit Osborne, Kansas, America and how on Earth can we make sure that everybody that came here with Ellen, who took the time out of her schedule to leave at 6 a.m. in the morning or 5 a.m. in the morning or whatever it was that she had to do to come down here, are protected. That is going to be the effort—that is very difficult, that is a very tough challenge. But that is why we are here, to learn from you. I am from the Federal Government, and yes, I am here to help. [Laughter.]

The CHAIRMAN. Thank you very much. I thank all the members of this panel.

The next panel will be composed of Mr. Alan and Ardis Hammock, Andy Tucker, Steve Basford, and D.A. Lewis. And we will begin with one or both of the Hammocks, in whatever order you wish to proceed.

**STATEMENT OF ALAN HAMMOCK, FARMER, FRIERSON FARMS,  
CLEWISTON, FL**

Mr. HAMMOCK. Thank you, Mr. Chairman, Mr. Lewis, other distinguished members of the committee. Thank you for coming down to Florida and listening to our problems and our concerns.

My name is Alan Hammock, this is my wife Ardis. We work with my aunt, Vee Frierson Platt on her 70-plus-year-old farm on the southern shore of Lake Okeechobee. The changes that have happened to agriculture on this farm in my late uncle Ed Frierson's days were many and some very difficult. He only had to endure droughts, floods, hurricanes, crop diversification, and modernization in farming. In my 20 years on the farm, I too, have seen many changes. New and stringent labor and environmental laws have been enacted. Workers compensation, unemployment, and medical insurance costs have skyrocketed. Many of our most effective pesticides have been discontinued. Endless records have to be kept, which really require a full-time secretary, but that is an expense we cannot afford. So consequently, I have to spend more time in the office than I do in the field these days.

The difference between my uncle's fight for survival and ours now is he only had to contend with the U.S. Government. That in itself is almost an impossible task. But with this agreement, we will be mandated to compete with a Government that requires little or none of the same laws I have to obey to stay in business—Mexico.

Changes in pesticide laws have made it so the minor crops are in jeopardy of extinction. Currently, we measure residues in parts per billion. That was not even conceivable when existing pesticide laws were written. Because of our new regulations, the price of pesticides has escalated substantially in the past few years.

Because of high labor costs, we have had to move more and more to mechanization on our farm. Now our Government wants us to compete with growers in Mexico whose labor costs are only a fraction of ours. How can we do this?

Now our Government will impose what appears to be the final blow—NAFTA. There is no way we can change our practices to cut expenses on our farm in order to compete with the price Mexican sugar can sell for. We have been dealt a hand that there is no win or draw—only to lose.

Mr. Roberts, I would just like to say that I agreed with some of your opening statements, that the trade agreement should not be passed to the detriment of any of us. We feel for you all out there and we hope that you all feel for us down here. We are small sugarcane farmers and we have our lives that we like to lead the same as you all do up there. We appreciate the chance to come here and express this to you. We think that Government should do for us what we cannot do for ourselves, and by passing treaties with other nations, that is something that I personally could not get into that you all are able to get into. And I pass these concerns on to you all, that while those that stand to benefit from it are many, those that stand to lose their livelihoods as we know it now are also many. And we are one of them, one of the small farm families down in Clewiston.

Mr. de la Garza, I heard you tell the submarine story before and I agree with it 100 percent. There is no telling what new technical advances there will be in the future, but the atomic submarine was certainly one of them, but those fellows have to come up and eat. And if you do away with American agriculture, sugar being a big part of it, we feel, I do not see how we are going to have a leg to stand on in these United States.

Thank you very much.

[The prepared statement of Mr. Hammock appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. I am happy to hear you have heard—if there is time after we take care of all the witnesses—I might tell my submarine story, even show my chart. [Laughter.]

Mrs. Hammock, did you wish to testify?

Mrs. HAMMOCK. Yes, I do, please.

The CHAIRMAN. Be very happy to hear from you.

**STATEMENT OF ARDIS HAMMOCK, FARMER, FRIERSON FARMS, CLEWISTON, FL, ACCOMPANIED BY ROBERT AND SARA HAMMOCK**

Mrs. HAMMOCK. I am a mother trying to protect a precious way of life that was passed on to our family.

The decisions made by this committee will heavily influence others. Please remember when you make your decision about NAFTA that it will not last for 1 hour or 1 day, but a lifetime for a small family farm and our children.

It is really hard to explain to your 9 and 10 year olds what NAFTA is all about. I would like for you to meet the 9 and 10 year olds I am speaking about. These are our children, Robert and Sara.

The CHAIRMAN. Hi, Robert; hi, Sara.

[Children rise.]

The CHAIRMAN. Let the record show that the Hammocks were accompanied by two other witnesses, Robert and Sara.

Mrs. HAMMOCK. They should not have to be concerned or to worry about what NAFTA holds for their future. My explanation to them was if we were to play a game like the NAFTA game, we would all be playing the same game; the only thing different is we would each have a different set of rules to play by. No one could accuse the other of cheating because we would all have our own set of rules. And as with most games, the one who goes broke first would lose. In this game, the winner is helped by having the least and easiest rules to play by. This is how I perceive the NAFTA game. We are not free to choose if we want to play or what rules we are given to play by. There is no consideration of fairness.

I have always taught my children that there is one set of rules, the same set of rules for all to play by. In order to play the game, all must play by the rules and play fair. Those who do not must leave this game. As with all children, there are arguments and opinions about the rules. The rules are written to be interpreted one way, fairness to all. In baseball, football, and basketball, we have referees and umpires. Their decision is final and they know the one clear-cut set of rules. Who will be the referee and umpire in the NAFTA game? How can there be any fairness when there

are two different sets of rules? How can I know that Mexican farmers are playing by the same rules that I have to play by?

Of course, I will continue to teach my children that sometimes life is not fair. But the reason usually is because someone is not playing by the rules, and all are usually hurt by these broken rules.

Robert and Sara have a game that they would like to give you. It is called sugar rummy. It is similar to the NAFTA game. We are sure after reading the rules, and each of you have variations to contend with, you will figure out who has the upper hand, and that is definitely you, Mr. Chairman, because all your cards are wild, you will be able to play as you please. [Laughter.]

I hope the children's game will help you remember the predicament you have placed them in for their future to be.

I implore my Government to protect the hands that feed its people and be fair to all the players in this game. Please do not continue to play in a game or force us to play in a game that will destroy sugarcane farming in south Florida. What will NAFTA do me has been your question today. It gives me no hope as a sugarcane farmer to pass the legacy of a land that we are locked into on to my children. There can be an agreement to help Mexican and United States farmers, but only if we have the same set of rules. NAFTA should stand for—N—A—F—T—A, North American Fair-Trade Agreement. The way the rules are written now, the N—A—F—T—A stands for No Agricultural Families Throughout America.

Thank you for the opportunity to speak today and your concerns you have expressed to us.

[The prepared statement of Mrs. Hammock appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Thank you very much, Robert and Sara. We appreciate you being here.

I think we have your address. I will send you one of my prized souvenir pencils from Washington in return.

Mr. ROBERTS. Or you can come to the Long Branch in Dodge and play sugar rummy with us any time.

Mrs. HAMMOCK. Thank you.

The CHAIRMAN. Mrs. Hammock, I might mention very briefly that we have introduced, I and several other Members, what we call the minor-use bill that hopefully will address some of the concerns you have with the minor-use type of pesticides, insecticides, et cetera.

Mr. ROBERTS. It is parts per trillion now, not parts per billion—parts per trillion.

Mrs. HAMMOCK. See, it keeps changing.

Mr. ROBERTS. You know, science keeps moving forward, but until we get that negligible risk standard and the Delaney clause changed, we are going to continue to have these doggone problems.

The CHAIRMAN. We are working on it.

Mr. Andy Tucker.

#### **STATEMENT OF ANDY TUCKER, VICE PRESIDENT, REGION II, NATIONAL CATTLEMEN'S ASSOCIATION**

Mr. TUCKER. Thank you, Mr. Chairman.

I am a cow/calf producer and purebred Brahma breeder from Rock Ledge, Florida, about 40 miles east of here, right in the shadow of the Kennedy Space Center. I currently serve as region II vice president for NCA, National Cattlemen's Association, that represents eight Southeastern States. It is real hard to follow a presentation such as you just heard, so I am going to stick real hard and fast to an acronym that I really adhere to called KISS, keep it short and simple. Maybe that will be a contrast to what will be heard from today.

The National Cattlemen's Association—I am going to take five pages of testimony and present to you five paragraphs. The National Cattlemen's Association supports the North American Free-Trade Agreement for a very simple reason. It is a good growth opportunity for our beef business. Mexico and Canada provide logical potentials to expand our market.

A good trade agreement is a win-win situation for all countries involved. The National Cattlemen's Association is participating in the Ag for NAFTA Coalition to help educate Congress and others about the importance of the agreement to our industry. We are committed to free and fair trade, not only with Mexico and Canada but with other countries around the world.

You know, agriculture in Florida would be the No. 1 industry if you included forestry and horses, and they should rightly be so. Florida agricultural producers face many pressures not associated with normal agricultural production efforts across this country. NAFTA as it is being considered will greatly add to these pressures. I wish that we could rename this agreement to the North American Equal-Trade Agreement. Florida agriculture can compete with anyone anywhere on equal footing.

I know from first-hand experience because of being in the purebred Brahma business and exporting cattle from here to all parts of the world, specifically Mexico at times, that—I know the attitude that is prevalent in Mexico, considering bypassing regulations, rules, and restrictions. The current agreement needs to be amended to address this shortfall. Please take heed from the concerns being shared with you here today, not to eliminate a valuable, viable industry in Florida.

Thank you.

[The prepared statement of Mr. Tucker appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Mr. Basford.

#### **STATEMENT OF STEVE BASFORD, PRESIDENT, JACKSON COUNTY FARM BUREAU FEDERATION**

Mr. BASFORD. I am Steve Basford. I am a diversified farmer from Grand Ridge, in Jackson County, Florida, about 300 miles northwest of here. I have always been very active in the associations that represent the commodities that I grow, and I appreciate this opportunity to address your important committee.

I produce several commodities, including pork, soybeans and corn that many believe will benefit from the North American Free-Trade Agreement. However, I do not share this belief, because Florida stands to be adversely affected by this agreement. Florida produc-

ers have examined it in great detail. My experience has shown that the more any farmer learns about NAFTA, the less they like it.

While it is possible some commodities could benefit from the agreement, it is likely that peanuts will suffer. In Jackson County, peanuts are extremely important. Most farmers in Jackson County and across northwest Florida depend heavily on peanuts to keep them in farming. Without this vital program crop that relies on supply management to maintain a floor price, many farmers would be forced out of business. The NAFTA, as we know it, would allow an erosion of the supply management program that works so well. We cannot afford to allow Mexico or other countries to provide for our domestic peanut market. If we undermine the supply/demand balance currently in place, we can expect profits to go down. If this happens, many producers in north Florida will be forced out of business. Several years ago, there were producers who only grew soybeans and corn in my area. But that is no longer the case. If it had not been for program crops, such as peanuts and cotton, many more farmers would be out of business today.

The farmers I represent share the concerns of other Florida farmers and are strongly opposed to NAFTA in its current form. In pork and soybeans, we have seen other countries disregard trading rules at our expense. Mexico does not have a good record of compliance with the GAAT rules and I do not believe that they will adhere to any NAFTA provisions that are not in their best interests.

If an agreement requires Mexico to comply with the same regulations as the United States, it will be difficult to monitor and enforce those regulations. My Government has placed increased labor and environmental costs on farming. Therefore, they should be responsible for helping protect my market. In my opinion, the peanut program operates much like tariffs on citrus and vegetables in that it provides some market protection for increased cost of production that we face. I believe that any increase in sales of U.S. produced commodities will be more than offset by loss of important markets. We in agriculture have worked very hard to provide safe, abundant food at a reasonable price, each of you know how well this has been accomplished. I am concerned this agreement could allow a decrease in the safety of our food and an increase in the cost of food if domestic producers are forced out of business by Mexican production.

I would like to conclude by thanking Congressmen Lewis and Canady and Congresswoman Thurman for their work on our behalf to protect Florida's farmers. I urge each of you to carefully consider this North American Free-Trade Agreement and keep Florida farmers in mind as you decide how to vote. Thank you for your time.

[The prepared statement of Mr. Basford appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir.

Mr. Lewis.

#### STATEMENT OF D.A. LEWIS, JR., VICE PRESIDENT, FLORIDA PEANUT PRODUCERS ASSOCIATION

Mr. D. LEWIS. Thank you, Mr. Chairman. I too would like to speak about the peanut industry in Florida. I am D.A. Lewis, Jr.



from Ocala, Florida, a full-time peanut farmer and vice president of the Florida Peanut Producers Association.

Mr. Chairman—and I also come from horse country, as Mrs. Thurman can relate to—

Mrs. THURMAN. He is a constituent.

Mr. D. LEWIS. This hearing reminds me of a horse race I heard of one time. Two horses were in that race, one was named Pete and one was named Repeat. I think we have many Pete's here at this hearing and I think we are actually singing from the same page. If I could think of a title of a hymn for that particular hymn, I think I would call it Hope and Fairness to All.

As I said, I am the vice president of the Florida Peanut Producers Association. We represent nearly 1,500 peanut farmers in Florida located primarily in central, north central, and west Florida. We are also members of the National Peanut Growers Group, an umbrella organization representing over 40,000 peanut farmers in all peanut-producing States, and the National Peanut Council, an organization representing all segments of the peanut industry from the grower to the manufacturer. And as you well know, that includes the State of Texas.

The Florida Peanut Producers Association appreciates all you have accomplished in the past with the North American Free-Trade Agreement that have ensured that Mexican peanuts will meet the same quality standards as the United States peanuts and will also ensure that all peanuts and peanut products imported from Mexico be from Mexican production and not transshipped from other countries. However, even with these assurances, our association believes that NAFTA continues to be a hastily concluded bilateral agreement that provides special concessions to Mexico at the expense of peanut producers, and I might emphasize, other commodity producers, as we have heard from here today, across the United States.

First and foremost, the treaty unnecessarily sacrifices the beloved section 22 of the Agricultural Adjustment Act of 1933, as amended. In developing the Canadian Free-Trade Treaty, section 22 was not eliminated, and as Mexico is not currently a peanut exporter, the elimination of section 22 was not necessary to reach the agreement. To eliminate section 22 encourages peanut production in Mexico which displaces United States production, costing domestic producers and the United States Government. We hold firm the belief that section 22 should be retained.

One of the biggest concerns from peanut farmers is the U.S. Customs Service's ability to enforce provisions already included in NAFTA. Reduced manpower and poor supervision will encourage reimportation of United States peanuts, importation of poor quality Mexican-grown peanuts and transshipment of non-Mexican produced peanuts and peanut products. Continued assurances from the administration are meaningless if there is no ability to enforce language already written into NAFTA and there is no penalty for disregarding language already written into NAFTA.

I cannot stress enough the need for strong rules of enforcement of these provisions during consideration of the treaty. And I would like to conclude that I appreciate, as many have said, for you coming to this hearing. Throughout the negotiations for NAFTA and

GAAT, peanut producers have repeatedly been told that they will be one of the big losers. Even so, peanut farmers are no strangers to the unnecessary changes they create. We continue to feel that our concerns have not been adequately addressed, especially in the area of enforcement of provisions in NAFTA. We will continue to present our concerns to this committee and to our negotiators. Again, Mr. Chairman, the Florida Peanut Producers Association thanks you for the opportunity to appear before you today.

[The prepared statement of Mr. D. Lewis appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. D. Lewis. We thank all the members of the panel for being here, and Robert and Sara.

The next panel will be Sister Gail Grimes, Mr. Robert Williams, and Mr. Wendell Rollason. We will be happy to hear from you at this time, Sister Gail.

### **STATEMENT OF SISTER GAIL GRIMES, ADMINISTRATOR, FARMWORKER ASSOCIATION OF FLORIDA**

Sister GRIMES. Good morning, Mr. Chairman and panel. My name is Sister Gail Grimes. I have worked for 19 years here in Florida with farmworkers and I am here today representing the Farmworker Association of Florida. It has a membership of between 10,000 and 20,000 Hispanic, Haitian, and black American farmworkers, both in central and south Florida.

Our membership believes it is high time that farmworkers in this country are not treated as disposable commodities like paper goods, to be used and discarded at will. The Government in this negotiation has a responsibility for this large group of the working poor of the Nation not to destroy their livelihood. Our organization is opposed to NAFTA as it stands. We believe there must be adequate provision for a fair competition in the marketplace as many of the growers testified here today. And we do not find this in the NAFTA agreement.

It gives every evidence to us of putting small companies out of business on both sides of the border. As Mr. Duda said today, big business will find ways to survive, but this country has always been for the small business person and this trade agreement seems to be going to move toward making a monopoly as opposed to supporting small business. It will also reduce Florida farmworkers into worse poverty than they exist in now.

Currently, United States enforcement of our own laws protecting farmworkers leaves much to be desired because in most cases, these laws are highly underfunded for enforcement. How can we ever hope to guarantee what will go on across the border?

NAFTA must be changed to deal with the economic and environmental impacts that will come, and to ensure additionally the safety of U.S. consumers from the importation of foods tainted with dangerous chemicals already banned in this country. We believe NAFTA makes a mockery of the EPA and of every other law enforcement agency in this country.

I have submitted a much longer testimony, but for the sake of leaving time for Mr. Williams, I just will stop there and ask that the other be, as you said, included in my testimony.

Thank you.

[The prepared statement of Sister Grimes appears at the conclusion of the hearing.]

The CHAIRMAN. Your full statement will appear in the record.

**STATEMENT OF ROBERT A. WILLIAMS, ATTORNEY, FLORIDA  
RURAL LEGAL SERVICES, INC.**

Mr. WILLIAMS. Thank you, Mr. Chairman. My name is Robert Williams, I am attorney with Florida Rural Legal Services. We appreciate the opportunity to speak today about how NAFTA is going to affect 150,000 farmworkers in Florida.

The farmworkers who live in Florida are mostly poor, mostly illiterate, very few of them speak English. They are not good candidates for job retraining programs. Their jobs in farmwork are the only jobs they are likely to get. Even if Congress were willing to appropriate the money for retraining, those retraining programs would only reach a tiny fraction of the number of people that are to be displaced. Last year, the Department of Labor funded job training programs was successful in placing 20,000 farmworkers in jobs in the whole United States at a cost of \$5,000 per placement. If NAFTA displaces 50,000 farmworker jobs in Florida, the cost is going to be \$250 million to retrain those people. Is Congress prepared to put up that kind of money? That is a cost that ought to weigh very heavily in the consideration of this treaty.

But farmworkers face a more serious problem than just the loss of their jobs. We have repeatedly heard that we need this treaty in order to stem illegal immigration from Mexico. Every expert I know in the area of agricultural labor believes that passage of NAFTA will actually increase migration to this country to do farmwork. That is because some of the people who are big losers in Mexico are the poor peasant farmers in Mexico who grow corn. Those are exactly the people who have come to this country looking for a better life by doing farmwork.

So the end result of NAFTA is we will have even more farmworkers chasing fewer jobs and that will take us in the wrong direction. We need to go forward. There are a lot of things we need to do to improve life for farmworkers in this State. One key problem area is that we face a critical shortage of housing throughout the State, particularly in the area of southwest Florida where the citrus industry has put in so much grove acreage recently.

Just like an orange grove needs to be amortized over a long period of time, the housing for the workers who are going to work in that grove also needs to be amortized over a long period of time. People are going to be unwilling to invest the money to build the housing that we need if they do not think there is a future for the citrus industry in Florida.

In order to solve the farmworker problem in this State—and we have a very serious problem and we have had this problem for a long time—we need to have a healthy, viable agricultural economy and that is why our organization is opposed to NAFTA.

[The prepared statement of Mr. Williams appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir. Mr. Rollason.

**STATEMENT OF WENDELL N. ROLLASON, EXECUTIVE VICE PRESIDENT, REDLANDS CHRISTIAN MIGRANT ASSOCIATION**

Mr. ROLLASON. Thank you, Mr. Chairman. If I may, sir, as a loyal Democrat, give a nod to Representative Tom Lewis, who has been so cooperative every time that we have approached him in matters concerning children of farmworkers. I am really appreciative.

My name is Wendell Rollason and I am executive vice president of the Redlands Christian Migrant Association, based in Immokalee, Florida. We have 77 child care centers and programs and serving at the height of the agricultural season some 5,000 children daily. I do not want to repeat other than to endorse the comments of my two colleagues on this panel, of the needs and our fears of NAFTA.

If I may, Mr. Chairman, I would like to slip into my role as a great grandfather to speak to the panel there of the types of persons, the types of families that are in the farmworker community. I have been working with them now for, this is my 43rd year and they really are, along with the growers, I might say, one of the last bastions of the American work ethic—they work for a living. They are loving parents, they have grave concerns about the education of their children. I would only wish that the public schools generally in Florida had an equal concern for the education of their children. I would presume to ask of you five Congress people that in all of this discussion, that you appoint yourselves as champions of the farmworker families. They are the bottom of the economic heap in our country. Surely this is an opportunity for the Agriculture Committee and the U.S. Senate to say we are standing by the people that make the agricultural production possible in the last analysis, and that is the farmworker, and be their champions, whatever comes before your desk. I know that you are not the originators of this, but you are certainly in a position to say no, we are not going to permit a decimation of jobs for these beautiful families.

Thank you.

[The prepared statement of Mr. Rollason appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Mr. Rollason. Let me mention to all three of you; Mr. Williams, Mr. Rollason, and Sister Grimes, that there is a newly awakened sensitivity in the Congress to the plight of the farmworker and the seasonal migrant. In the disaster relief legislation, as it left the House, at the insistence of this committee and the members of this committee and members of the Appropriations Committee, had a set-aside for migrant farmworker assistance. A lot of the migrant farmworkers, some from my district, got caught in the Midwest with not enough money to get back. So any time that we now have assistance to the producer or the farmer, there is a set-aside for the farmworkers or those that help the producers achieve the goals. There was \$20 million set aside for farmworkers who would be suffering because of the floods in the Midwest. That now will be the norm any time that we have any type of assistance. Let me say, for me personally and on behalf of the committee, while we do not have jurisdiction over the worker side of agriculture, nonetheless we have oversight and we work on

it. I would ask all of the producers, the sugar, the peanuts, the citrus, all of them, to have the sensitivity needed for these people. For without the farmworker, everything would be for naught. None of the producers would be able, in the end, as difficult as it may be with everything else, but without the farmworker, it would be almost impossible to stay in business. So I would ask all of the producers on behalf of our committee, that you have—which I am sure you do—the sensitivity needed to see that these at the lowest level—without whom you would not be in business—are taken care of to the extent that it is economically possible to you.

I thank the members of the panel.

The next panel, Mr. David Baker, Dr. Polopolus, Dr. Haar, Frank Marsocci, and Mr. Cooper.

Mr. Baker, we will begin with you.

#### **STATEMENT OF DAVID BAKER, PRESIDENT, CHAMBER OF COMMERCE, THE PALM BEACHES**

Mr. BAKER. Thank you, Mr. Chairman, good morning. Thank you and the other members of the committee for having me here this morning. My name is David Baker, I am president of the Chamber of Commerce of the Palm Beaches, the oldest and largest business association in Palm Beach County, representing over 1,500 businesses, many of whom I am proud to say are the constituents who regularly send Congressman Tom Lewis to Washington. I appreciate the opportunity to provide testimony this morning on the role agriculture plays in Palm Beach County.

In Palm Beach County, our agricultural industry produces vegetables, sugarcane, citrus, and rice. The total cash value of these crops in 1991 was over \$1 billion. Over 25 percent of the U.S. sugarcane production is harvested in the Everglades agricultural area located in the western part of our county. This same rich agricultural area is the leading producer of sweet corn and radishes in the country. In Palm Beach County alone, over 565,000 acres of land are currently involved in some sort of agricultural production.

Obviously the economic impact of this \$1 billion industry is brought home when I inform you that salaries alone from this industry put over \$361 million directly in our local economy. The indirect economic impact easily brings agriculture's total contribution in Palm Beach County to well in excess of \$1 billion.

Our chamber has historically supported the concept of free trade or better yet, fair trade. However, the North American Free-Trade Agreement in its current form is not fair. It would have a devastating impact on agriculture in our community and threaten the livelihood of tens of thousands of residents in Palm Beach County. A county of nearly 1 million residents who currently benefit from a diversified economic base would see its second largest industry decimated unless appropriate side agreements, particularly side agreements dealing with minimum prices, are negotiated in conjunction with NAFTA.

It is our hope that you, our elected Representatives, will ensure a level playing field is guaranteed to agriculture, not only in Palm Beach County, but throughout America. Free trade must guarantee, must assure, fair trade.

Thank you for the opportunity to speak.

[The prepared statement of Mr. Baker appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Dr. Polopolus.

**STATEMENT OF LEO C. POLOPOLUS, PROFESSOR, FOOD AND RESOURCE ECONOMICS, UNIVERSITY OF FLORIDA**

Mr. POLOPOLUS. Thank you. Mr. Chairman and members of the Committee on Agriculture of the U.S. House of Representatives. I am honored and pleased to present my views on the likely economic impact of the proposed NAFTA agreement on Florida agriculture. My views are based on 28 years of experience as an agricultural economist in the State of Florida. I have previously served as director of economics for the Florida Citrus Commission as well as full professor of agricultural economics at the University of Florida since 1969.

Rather than deal with the theoretical issues of free trade, I would like to concentrate upon the likely economic impacts of the proposed North American Free-Trade Agreement, particularly as it relates to Mexico and Florida. Lowering United States import duties to zero on Mexican fruits and vegetables is only part of the problem for Florida. This presumed equity in tariff schedules will not offset the inequity that remains with environmental regulations, wage rates, and worker benefits between these two geographic regions, particularly as related to fruit and vegetable production. Whether trade liberalization in fruits and vegetables occurs immediately or over the next few years, an adverse economic impact on Florida agriculture will be forthcoming from increased imports of these products from Mexico.

In 1990, the Mexican horticultural exports to the United States were \$1.5 billion, accounting for 56 percent of Mexican agricultural exports. Tomatoes, peppers, and cucumbers are the most important vegetables exported from Mexico to the United States. Easier entry into United States markets via lower tariffs is expected to greatly increase Mexico's horticulture exports to the United States, lower product prices, and place Florida growers in economic jeopardy.

Two of Florida's leading agricultural commodity sectors, fresh market tomatoes and orange juice, are expected to be the most severely affected by NAFTA. With reference to the sugar provisions, United States negotiators were simply too naive in assuming that Mexico is unlikely to be a net exporter of sugar by the seventh year of the agreement. The agreement permits Mexico to have an unlimited sugar quota in the United States market if they become net exporters for two successive years following the sixth year of the agreement. Many of us that have followed Mexico's sugar industry over the years know that Mexico has the soil, climate, labor, and other factors necessary for greatly expanded sugar output. The NAFTA agreement also creates a goal of increased sugar output by Mexico's sugar oligopolists so as to achieve unlimited quota status in the U.S. market.

It is my view that Mexico will indeed become a net exporter of sugar to the United States within 7 years. This situation will either cause the United States to reduce the sugar quotas of the present 39 other nations that supply our sugar under the current program or cause the Congress to develop a new or different sugar price

support program. Mexico could become a net exporter of sugar to the United States market in a variety of ways. Mexican sugar oligopolists, previously a monopoly, could import large quantities of Cuban sugar, at lower world market prices, label it as Mexican sugar for Mexican consumption and dispatch Mexican sugar to the United States market at much higher United States prices. This of course would be illegal under the transshipment rules of NAFTA, but strong enforcement mechanisms would have to be developed to avoid such shenanigans.

Another plausible and more likely method for Mexico to become a net exporter of sugar for 2 successive years is by substitution of high fructose corn syrup for sugar in Mexican soft drinks. Currently, the soft drink industry in Mexico utilizes real sugar in its beverage formulations. Shifting to corn syrups for Mexican soft drinks could free up at least one-half million tons of sugar for export to the United States. Such a level of exports from Mexico into the United States market would have an adverse effect on the sugar price support program and the welfare of not only Florida, but other domestic sugar producers.

The bottom line in terms of adverse economic impact on Florida agriculture from the proposed NAFTA agreement is reduced production, employment, and income for the Florida agricultural economy. According to my estimates, there are over 300,000 people employed annually in Florida's farm supply, farm production, and agricultural packing and processing industries. In addition, there are countless thousands of people employed in closely related agribusiness activities, such as in wholesale trade, retail trade, transportation, finance, real estate, construction, telecommunications, among others. As currently drafted and without a level playing field in terms of environmental regulations and labor benefits, it is highly possible for NAFTA to impose a net loss of 100,000 direct agricultural jobs in Florida because of the lower domestic prices from increased Mexican imports. These job losses would be concentrated in Florida's citrus, vegetable, and sugar industries. Because of the multiplier effects, additional nonagricultural employment would also be adversely affected in Florida, particularly in rural areas.

Unless alternative industries are quickly established to soften the fall of agriculture, the adverse impact of foreign competition erodes not only the job base, but weakens the value of land, which in turn further weakens the financial viability of production agriculture. In a worst case scenario, low priced foreign imports makes farming unprofitable, reduces production and employment, and devalues farmland. These are the likely realities of NAFTA's impact on Florida agriculture, irrespective of your philosophical views on free trade.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Polopolus appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Doctor.

Yes, Mrs. Thurman.

Mrs. THURMAN. Just for the record, Doctor, your testimony was what I put in the record a few minutes ago, in contrast to what was being said about IFAS. It in fact was your report that you did

on the Caribbean Basin and the effects of NAFTA. You should know that your material is in this record twice now.

Mr. POLOPOLUS. Thank you, Mrs. Thurman.

The CHAIRMAN. Thank you very much. Dr. Jerry Haar.

**STATEMENT OF JERRY HAAR, MEMBER, INTERNATIONAL ECONOMIC DEVELOPMENT GROUP, GREATER MIAMI CHAMBER OF COMMERCE, AND SENIOR RESEARCH ASSOCIATE, NORTH-SOUTH CENTER, UNIVERSITY OF MIAMI**

Mr. HAAR. Mr. Chairman, members of the committee, I welcome the opportunity to appear before you today on behalf of the Greater Miami Chamber of Commerce, as well as the North-South Center at the University of Miami.

The Greater Miami Chamber of Commerce is an association of over 4,000 companies that employ over 300,000 people in Miami, 40 percent of Miami's workforce, a workforce not dissimilar to that of Mayor Anthony's constituents, many are poor black and Hispanic. The North-South Center at the University of Miami is a leading public policy research and information center exclusively dedicated to finding practical solutions to the problems facing the nations of the Western Hemisphere. The center has become widely recognized as a research and public policy analysis center on the implications of NAFTA. We are presently directing 31 projects that focus on NAFTA and hemisphere-wide trade arrangements, including a comprehensive assessment of NAFTA jointly with the University of Texas at Austin. Although the center is a neutral academic forum and does not take policy positions, individual scholars and researchers such as myself do.

The Greater Miami Chamber firmly believes that NAFTA, with side agreements to strengthen its labor and environmental provisions, will bring benefits overall that will exceed the cost in the agricultural as well as nonagricultural areas. We are heartened to hear that Secretary Crawford is not dismissing NAFTA outright, but rather feels, as we do, that with the side agreements that are in process right now, the baby not be thrown out with the bathwater, so to speak. We do not feel that as Mr. Neitzke pointed out, that one needs to penalize Mexicans or others for the excessive Federal regulation that chokes American agriculture and other industries.

Putting Florida agriculture in context just for a second and looking at some statistics that we came up with, as a percentage of State exports to Mexico, Florida's is one-half of that of Kansas, a 12th that of California, and a 30th of that of Texas. So although there is a human dimension and it is very important that there be a sound agreement that focuses on the labor and environmental dimensions, we do have to put this in context. Agriculture, forestry, and fishing combined provides a gross State product in the State of a mere 2 percent. Florida employment in agriculture is 3.1 percent, it is heading down and would be heading down with or without NAFTA.

One should constantly bear in mind that Mexico is the United States' third largest market for agricultural goods, and in the aggregate, the United States agricultural industry will gain more than it loses under the agreement. NAFTA will result in a \$2.5 bil-



lion annual jump in farm exports and a 3 percent boost in yearly farm cash receipts.

It is also important to note that as the standard of living improves in Mexico, the growing middle class—and yes, there is one—will be demanding the same fruits, vegetables, and other agricultural products as those grown in Florida. We can see an overall increase in demand, and research does tell us that as incomes rise, as is expected in Mexico, Canada, and the United States, nutritional habits change as well. People eat healthier and will be eating that way in all three nations who are NATFA signatories.

The United States, thank goodness, is the most efficient agricultural producer in the world. Productivity is what one needs to focus on overall. Mexican farms are not nearly as productive as United States farms. United States farmworkers, being as productive as they are, have less to fear of the low wages in Mexico than ordinarily thought. If wages were everything, Bangladesh and Haiti would be world powers.

In looking at the agricultural sector as well, not everything is directly related to the farm. If you look at the Mexican market, for example, in agricultural equipment, fertilizers, and technical services, here are significant opportunities for Florida businesses. The agricultural chemical and fertilizer industries comprise over 100 companies employing over 8,000 employees. Mexico buys most of its phosphate from Florida. Florida already, with the great increase in phosphate demands from Mexico, will be supplying more than 70 percent in this year alone.

Again, none of this is to say that there is not a human dimension in citrus, winter vegetables, and all the rest, but as Secretary Crawford and other witnesses have pointed out, there are ways, through the side agreements, to address these, not at the expense of Florida agricultural workers. Overall, neither the benefits nor the consequences of NAFTA will be felt overnight. The 10- to 15-year phase-in, the snap-back provisions will ensure that. For Florida, NAFTA's importance goes beyond the agreement. Latin America is an important region for Miami and south Florida. It is a region that is generating a lot of job creation, especially for newly arriving immigrants here and other individuals who are migrating from elsewhere in the United States to find new opportunities.

In conclusion, every study I have seen on NAFTA's impact on the State of Florida overall concludes that net benefits will exceed net costs. As for the employment effects in particular, neither an overwhelming number of jobs will be created, nor an overwhelming number lost. In the case where jobs are lost, I take issue with those who do not feel that training or retraining is a mechanism. Yes, it can be done and it would be cheaper—and I indicate this in the testimony—where agricultural jobs are lost specifically due to NAFTA, to provide each worker, even with a \$100,000 trade adjustment grant or pay-back as a loan, than it would be able to maintain restrictions, restrictions that in frozen concentrated orange juice alone are costing the American consumers from 35 to 44 percent more. My calculations—and unlike Mr. Perot, I get mine from a computer, not out of a hat—are going to cost consumers for jobs saved—the cost would be \$240,000 per year. These are jobs that are paying less than \$23,000 per year. If you add in the consumer

price savings and the overall NAFTA-related employment gains, at least in our area in south Florida, you will see that it certainly is a good deal.

The issue, in conclusion, about literacy—the literacy problem and the literacy problems of migrants and all the rest is not going to be addressed through a NAFTA. That is a greater problem for the American people, for Congress to take up. Literacy campaigns certainly ought to be considered by growers, by the Federal Government, all the rest, to give both farmworkers as well as their children an opportunity to work beyond the farm should they choose.

Thank you very much.

[The prepared statement of Mr. Haar appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Mr. Marsocci.

**STATEMENT OF FRANK MARSOCCI, EXECUTIVE DIRECTOR,  
ECONOMIC COUNCIL OF OKEECHOBEE**

Mr. MARSOCCI. Good morning. Thank you for your interest today in holding these hearings to provide an opportunity for the ag sector and also the public to comment. You have my statement for the record and I would just like to take a minute to kind of summarize and maybe even go off the track of my statement somewhat, which I do not really like to do because I get sometimes adversarial when I do that. But I am going to do it anyway.

Obviously, I think you have heard from all the panelists today, I think all the bases have pretty well been covered—as an economic development professional in rural Okeechobee County, much of my work revolves around agribusiness. Agribusiness is the largest segment of our county's economy. Future economic development in Florida's rural agricultural-based counties is founded on the viability of the agricultural sector. Economic development hinges on our ability to create value-added clusters of firms for the processing, shipping, and distribution of agricultural and related products.

The issues and concerns you have heard today are real. We are asking you for your help so agribusiness in Florida can remain viable, and along with it the rural communities in Florida. I am very concerned when I hear that NAFTA is almost complete, the side agreements are being negotiated now by representatives of the administration. We are asking for your help. Who approves the final agreement? The side agreements? Please see that there is an equitable and level playing field as possible for Florida ag.

Thank you.

[The prepared statement of Mr. Marsocci appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. Mr. Cooper.

**STATEMENT OF GEORGE H. COOPER, FARM MACHINERY  
DEALER, BELLE GLADE, FL**

Mr. COOPER. My name is George Cooper, I am a farm machinery dealer in Belle Glade, Florida, and a lifetime resident of south Florida and been participating in agriculture some 35 years, both in Homestead, Belle Glade, and Immokalee area, plus Okeechobee. I pretty well service everything south of Kissimmee through Homestead.

The one thing that we have a tendency in Congress and the public in general, to do, is ignore the fact that agriculture is your basic industry and everything after that is an enhancement. When you transport it, process it, everything else is an enhancement. And we are looking at an opportunity to move one of our major industries overseas—the basic industry, of which we do not have many; mining, manufacturing, timber, agriculture—that is about it. And we only have a couple of those in the State of Florida that do us any good. I submit to you our economy cannot live on just the enhancement that we do to food when we bring it back into this country from somewhere else. We cannot allow the agriculture of the State of Florida to move to Mexico. And it will move to Mexico. And you talk about the Mexicans not being as competitive or as efficient or productive, it will not be the Mexican farmer who moves to Mexico, it will be the large United States farming operations that will move to Mexico. But along with it, he will take all those jobs that are currently held by the people in Clarence's little town of South Bay or Belle Glade, and they will not go. Those 40,000 residents that live around the south end of Lake Okeechobee will not go to Mexico to take up that job there—they cannot. They have lived, worked, produced, and raised their families and their hopes and dreams are based on the fact that they can make enough of a living in the 7 months of agriculture in the Everglades agricultural area in order to feed their families, and educate them, send them off to college, and the hopes and dreams for their kids are as great as anybody else's. And they do that.

The people in south Dade County had the opportunity to see that agriculture was the only thing that functioned after Hurricane Andrew. The public sector did not function, neither on the local level or on the Federal level in any amount that did any of us any credit. The private sector and agriculture is the only thing that functioned at a level near normal. They went back in, they disked the fields and they planted the crops and they provided the jobs, and they got the produce out and to the market—amongst the worst devastation any of you have ever seen. If you have not been there, you have not seen any place that looked that bad because there was not any place that looked that bad except Mr. Roberts—we will see when the water goes down, Kansas may look that bad.

Agriculture is dependent upon climate, be it meteorological or political. Today, we are here to see what the political climate is going to do to agriculture in the State of Florida. We lose sight of the fact that—let me say we are under the delusion, the general public of the United States, which includes Congress in my opinion, that you are going to create a large middle class, as Mr. Haar says, in Mexico. That is not so. All you have to do is drive across the border and see the difference from the Texas side to the Mexico side to understand it is a social system and attitude that keeps poverty in Mexico. It is not the lack of a willing labor force, because they come up here and they are hard workers and good workers. It is not lack of the land or the minerals or the climate or anything, they have all of those. What they do not have is the social atmosphere and they will never have that social atmosphere. They have not developed it in the last 200 years and I do not see it coming in the next 200.

So we are going to take \$10, \$12, \$15 an hour jobs, send them down to Mexico to become \$1 and \$2 an hour jobs. How much of our product that we generate in the United States are we going to be able to sell to that middle class in Mexico? The balance is not going to be there. We are not going to create a middle class, as Henry Ford did, trying to buy our products.

I think no other country in the world would ever let their agricultural base move to a foreign country because every other country in the world with the possible exception of Canada, has had times when they could not go to the grocery store and buy anything, it was not there, it just was not on the shelf even if you had money. Cuba, even if you have money, there is nothing on the shelf for you to buy. We never had that in the United States, so we have a cavalier attitude toward agriculture. It can go, yeah, what is the difference, we will produce it in Mexico. Western Europe does not do that, look at the fight over there over the French wines. They are not going to let that happen. They had that time during the war when they could not feed themselves. And when there was nothing for them to buy.

We cannot live in this State without agriculture. I know we have 5 million people that live over here on the coast, but there is a whole lot of us that do not live on the coast and do not make our living off tourists, we make it off cattle, dairy, citrus, sugarcane, tomatoes, and winter vegetables of that sort. Those people are not going to Mexico.

Who stands to benefit most by this agreement? Middle class of America? As my kids say "not."

[The prepared statement of Mr. Cooper appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. I have heard that so often from my grandchildren. [Laughter.]

I thank the members of this panel. We appreciate your testimony. We have done very well, thanks to the excellent cooperation of the witnesses, so we will now go to the addendum of those that may have been notified that we would not have enough time. And we will go through our list. I was going to say we do not have very civilized rules in the Congress, we do not stop for lunch, you grab it as you can. I do not know, we may lose some of our witnesses, but if any of the members of the panel wish to take a 5-minute break or so, there is no objection to that. I will keep working with the witnesses, you are free to absent yourselves momentarily.

Mr. ROBERTS. It is not the lunch we are worried about, Kika, it is just about a 5-minute situation, we will be right back. [Laughter.]

The CHAIRMAN. The Chair will continue. We will call Mr. Edelman, John Whitworth, Robert Coker, and Ms. Cheryl Waters. Now let me see, how many have I called—four? Mr. Hilliard and Mr. Bernard Lester.

We will start with you, Mr. Edelman.

**STATEMENT OF SID EDELMAN, MEMBER, INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS**

Mr. EDELMAN. Good morning, Mr. Chairman and committee members. I have a short statement, it has already been entered

into the record. I appreciate you letting me speak today. I am here to represent blue collar workers who are part of the International Association of Machinists and Aerospace Workers.

I am a member of the Machinists Lodge 2508 here in Orlando. I would like to tell you that the Machinists and Aerospace Workers oppose the North American Free-Trade Agreement fast track. More than 65 percent of the IM&AW members would be affected by this agreement.

I am here to express to you the sentiments of my international brothers as well as the concerns of the machinists employed in the agricultural industry, like the over 1,000 union members in the Okelante Sugar Mill, whose average wage ranges from \$21,000 to over \$40,000 a year. It is a concern of the machinists that jobs will be lost to unfair competition from south of the border.

The Florida agricultural industry illustrates this point. The Mexican industry will find a way to bring cheap sugar into America because their pay and labor standards are so low, or due to loopholes that may allow the substitution of Cuban or other subsidized sugars into this country.

Our concerns are for the thousands of well-paid, protected and insured American workers who will suddenly find themselves unemployed. Please consider my fate and the future of so many like me in the agricultural industry who will be traumatically affected by this unfair agreement that may benefit other Americans somewhere. Do not forget us, our lives are important too.

I would like to extend my welcome to you to Florida and I hope that you take back to Washington, DC our concerns. As you can see, we are very concerned. Most of us do not have the chance to go to Washington, DC for committees like this, so it is very nice to see you come down and hold your meetings where we can see you.

Thank you.

The CHAIRMAN. Thank you very much, sir, and you can rest assured that we will.

Mr. Coker.

#### **STATEMENT OF ROBERT COKER, VICE PRESIDENT, UNITED STATES SUGAR CORP.**

Mr. COKER. Good afternoon, Mr. Chairman. Again, I would like to also welcome you to Florida on this beautiful July day.

It is ironic that we have such a diverse group of people from Florida concerned about this agreement. It ought to send a strong signal to everybody in Washington that has responsibility for voting on it. Agriculture, labor unions, environmentalists, church organizations, mayors, county commissioners, equipment dealers—all the folks you have heard from today—are very concerned about their livelihoods and the impact that NAFTA is going to have on them and their future.

Mr. Chairman, you have been a real leader in this country on agriculture. You have stood up on the House floor and debated eloquently on behalf of many industries, and for that we thank you. You being here today demonstrates your genuine concern for not only agriculture across this country but also agriculture here in the State of Florida.

Clearly, Florida agriculture is the most significantly impacted segment by this agreement. A lot of people in this room came a long way today to be here to present you with testimony about their concerns. And I have, frankly, sat here and heard a lot of people talk from their heart. A lot of them did not have notes, a lot of them did not have statements and they expressed their very real concerns. And they are truly worried about the impact to their families and their jobs and their communities. And I was glad to see that they were here today expressing their concerns because it is difficult for some to get to Washington to be with you.

Today, I represent United States Sugar Corporation. We are an employee-owned company, there are 2,800 employees that are shareholders in our company. For over 60 years, we have been farming south of Lake Okeechobee on the richest farmland in the United States. The single biggest asset that our company has is our employees. We value our employees, we value their input, and without their dedication, productivity, and hard work, we would not be competitive in the very competitive businesses that we are in.

American agricultural workers and American workers in general are by far the best paid and the best treated of any workforce in the world. I think that is something that we all ought to be very proud of, and it is something that you as Members of Congress have contributed to, and you ought to be very proud of that as well.

Just recently our industry in south Florida, the sugarcane industry, and some vegetable farmers made a historic agreement on the Florida Everglades. Our contributions will exceed \$300 million toward the restoration. The regulations that we have to comply with as American farmers, in terms of water quality and other environmental issues, are very complicated and they are—I can assure you from a producers standpoint, they are strictly enforced.

I know that our brethren in Mexico have tried real hard and made great strides in recent years in terms of enacting legislation that governs the environment and labor. I tip my hat to them for that effort. They are trying to emulate the success stories that we have here in the United States. But I can tell you that my personal opinion is that this is going to be a long, drawn out, and at best, difficult transition.

The circumstances under which Florida farmers are going to have to compete with Mexico are going to be such that vegetables, citrus, sugarcane, and the many other commodities you have heard from today will not be able to be competitive, and there will literally be thousands of jobs lost here in the State of Florida as well as the rest of the United States.

Mr. Chairman, I know you have negotiated some very unique agreements, participated in many legislative issues as well as the rest of the members of the panel. A good agreement is when everybody is a little bit upset. And I don't believe that in this agreement that we have that mix. I think that there are an awful lot of people that are upset, that have their livelihoods at stake, and you are being asked on a bet to embrace a concept that we believe is detrimental to our future.

Agriculture and the people that farm in this country are by far the most stubborn people, free-willed people, that I know. And they

really believe that they can compete with anybody on a level playing field. And we support the concept of free trade, but I can tell you that we have to have fair trade. We need to protect America's food supply, we need to protect, from our standpoint, the 40,000 people that rely directly on the sugar industry in south Florida for their jobs and their future, \$1.5 billion in economic impact. We have to protect the jobs of American workers.

We know that you are here today because you care, and we know that you are concerned about the impact of this agreement. And taking this testimony today, I believe is going to give you, hopefully, a better insight into the feelings of the farmers that have not had a chance to go to Washington to express to you their concerns. I am confident that you are going to do everything in your power to help the Florida farmers survive after NAFTA.

Thank you very much.

[The prepared statement of Mr. Coker appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir. Ms. Waters.

**STATEMENT OF CHERYL WATERS, FARMER, PALM BEACH AND  
GLADES COUNTIES, FL**

Ms. WATERS. Good afternoon. My name is Cheryl Waters and I am a third-generation Floridian. I farm approximately 2,800 acres of sugarcane and rice in Palm Beach County and Glades County. I also run a rice mill in Lake Harbor. Between the farm and the mill, I employ approximately 25 people. Mr. Chairman, thank you for holding the hearing so that farmers like me can be heard.

Mr. Chairman, I want to personally thank you for your efforts over the years to keep the U.S. sugar industry viable. Through your help, Mr. Lewis' help, and efforts by subcommittee members, we have been able to keep the program that is so vital to us.

Efforts to keep the program have been substantial. Now we hear that U.S. negotiators have negotiated us out of existence if NAFTA, as written, is signed into law. We hear that side agreements are being concluded on labor and environment. We used to hear that there was a side agreement on import surges. Now we only hear about labor and environment. What about import surges?

We have been faced with uncertainties in the past years, Mr. Chairman, but they were nothing compared to the possibility of NAFTA. We are afraid and we need your help. Thank you.

[The prepared statement of Ms. Waters appears at the conclusion of the hearing.]

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

**STATEMENT OF W. BERNARD LESTER, EXECUTIVE VICE  
PRESIDENT, ALICO, INC.**

Mr. LESTER. Mr. Chairman, we too appreciate you coming down and being with us today. I represent Alico, Inc., which is an agribusiness company operating in central and south Florida. We agree with a lot of the information that has been presented this morning, so we would like to summarize for you what we feel are all the positives that have been presented this morning for Mexico, for the U.S. consumer and for Florida agriculture, without NAFTA in place.

First, for Mexico; Mexico, as you heard, has placed more citrus trees or as many citrus trees in the ground as Florida. You look at their imports into this country over the past few years, it shows a healthy growth curve. They obviously know they can compete with Florida without NAFTA because of the various advantages that they enjoy in that country, and they can also see the extent of increased expenses associated with continuing increasing regulations that we meet every month.

For the U.S. consumer, the specific rate duty for citrus that we have permits ample imports to come into this country any time our supply is low. The result is the U.S. consumer has the safest supply of food at the lowest proportion of income of anywhere in the world.

The positives for Florida agriculture; as you heard, we are the No. 2 industry in the State of Florida. We are a major supplier of specialty foods throughout much of the winter period. We have met competition and we have done well, but the consumer has benefited from that.

Now as has been correctly stated this morning, no one here is responsible for or in charge of this NAFTA program. But we hear a lot from Washington about the importance of economic activity. We feel then it is appropriate for you to go back to Washington, and ask whoever is in charge, Why do we want to risk all the positives that are happening now in Florida agriculture and shift those to a foreign supplier that has proven in the past they are not willing to abide by the same regulations as we? And then suggest also that they say to Mexico, Mexico, when you can come to us and prove that you will put in a system to abide by the same regulations and environmental, labor and other areas that are important to us, as we have to, then we will talk some more. But until you can provide that proof, we see no point in risking what we have here to take a chance with a system that is so unknown.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Lester. And we thank the panel for being here, and your contribution.

We now have Mr. Russell Kilpatrick and Mr. Orsenigo.

Mr. Kilpatrick, we will hear from you at this time, sir.

**STATEMENT OF RUSSELL KILPATRICK, PRODUCER, ON BEHALF OF THE GLADES COUNTY CATTLEMEN'S ASSOCIATION, AND PRESIDENT, GLADES COUNTY CHAMBER OF COMMERCE**

Mr. KILPATRICK. Mr. Chairman, I appreciate being able to come before your committee this morning, and I thank you all for taking your time out on a Saturday morning and coming down to Florida to hold this meeting.

My name is Russell Kilpatrick and I am a fifth generation Florida cattle rancher. My family has ranched in Florida since the 1830's. And I am a first generation sugarcane farmer. And whenever you tell your submarine story, I will tell you about how I got in the sugarcane business. [Laughter.]

Today, I am speaking as an officer on the Glades County Cattlemen's Association and as the president of the Glades County Chamber of Commerce.



One thing I would like to bring up—there has been a lot of stuff brought up that I agree with today. It is kind of hard to follow all these guys after they have talked for 3 hours, and bring up something new. But one of the things that I would like to bring out is about the National Cattlemen's Association. They are in favor of this agreement, and they do not represent my feelings of NAFTA, or the Glades County Chamber of Commerce or the Glades County Cattlemen's Association.

The National Cattlemen's Association directors are made up of cattle feeders and cow/calf operators, and it seems there are more feeders on the board of directors than there are cow/calf operators.

This agreement is probably good for the feeders because it will give them a steady, cheap supply of feeder calves. The cheap feeder calves will drive down the price that feeders have to pay to cow/calf operators like mine. And I cannot compete with ranchers in Mexico who pay their workers only a fraction of what I have to pay.

It is hard to compete with the ranchers in Mexico who do not have tremendous expenses of the mandated Government taxes and policies; for example, workmen's comp, matching social security, D.E.R. regulations, OSHA and all these new upcoming water management regulations and taxes.

The other issue was brought up earlier but I would like to bring it up again is the risk of TB and the other diseases that we have under control in this country, but are still a problem in Mexico. How can we be assured that these diseases will not be reintroduced into this country with the influx of these calves? Also the ranchers in Mexico are still using animal health products that were banned here years ago. USDA said it posed a health problem when they made us quit using it, but it is still used over there. And if this is fact, what is this going to do as an impact on food safety in this country?

Speaking from the Glades County Chamber of Commerce, we have already had a first-hand experience of businesses moving to Mexico. We had a local person who has been there all his life, started a fishing lure company, probably 15 years ago. A couple of years ago, he sold out to a national company out of Oregon, they bought him out, gave him a big price to run the company for them. They ran it for 2 years. Here about 5 months ago, they came forward and said that they could no longer stay in the United States making lures and be competitive all over the world, that they were paying \$5 to \$6 an hour for their labor and they were going to move their plant to Mexico. And about 2 months ago, they did. Presently there are about 18 to 20 people looking for a job in Glades County, and Glades County—land-wise, we are real abundant in land and there are few industries besides agriculture there. This company employed about 25 people. There are 5 people last count that had gotten new jobs, and like I said there are 18 to 20 that are still looking and I guess drawing unemployment.

Mexico resources are untapped and if this border is opened with the United States companies moving down there and using United States technology and the money from the United States companies, they will be able to produce more than they are producing now. And these companies will be moving down there to take advantage of cheap labor and less governmental regulations.

As I said awhile ago, I am a fifth generation Florida rancher, but my grandmother's family has been here since the 1700's. So I am planning on staying in Florida, but I would hate to have to try to sell out and go somewhere else, I want to stay here, but I do not want to have to compete with this cheap labor.

Mr. Chairman, I thank you for the opportunity to appear before this committee. And in closing, I would like to say that on a level playing field, the Florida cattlemen can compete with anyone. But please, let us level the field out.

Thank you.

[The prepared statement of Mr. Kilpatrick appears at the conclusion of the hearing.]

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

Mr. Orsenigo.

**STATEMENT OF PAUL ORSENIGO, PRESIDENT, PROFARMS, INC.**

Mr. ORSENIGO. Mr. Chairman, my name is Paul Orsenigo. I represent ProFarms, Inc. in Belle Glade, Florida. Mr. Chairman, I would like to thank you for this opportunity to share my concerns that I have about NAFTA and how it will affect my farming operation.

ProFarms is a bantam weight in a world of heavyweights, producing 13 different highly perishable leaf crops from only about 500 acres. ProFarms is a venture that I started over 8 years ago because of my love of farming. A lot of hard work and blessings from God, the rich muck soils of the Glades have enabled me to support my family and provide employment for 40 other families.

For myself and other vegetable growers, NAFTA will be an agonizing death. My hope is that there will be side agreements that will allow us to stay in business, to continue to produce nutritionally valuable crops, provide employment, pay our bills from our suppliers, and make a living.

Thank you for your time and interest.

The CHAIRMAN. Thank you very much, sir.

This concludes all of the witnesses that we knew wanted to testify. Yes, sir?

Mr. BALDWIN. I had submitted a statement to testify, Mr. Chairman.

The CHAIRMAN. You have submitted a statement?

Mr. BALDWIN. Last Monday.

The CHAIRMAN. Well that will appear in the record. If you care to come and summarize it, we will be very happy to hear from you at this time. Mr. Baldwin.

Mrs. THURMAN. Another constituent, I might add.

The CHAIRMAN. Very good.

**STATEMENT OF LEROY BALDWIN, PRESIDENT, FLORIDA INTERNATIONAL AGRICULTURAL TRADE COUNCIL, AND MEMBER, FLORIDA CATTLEMEN'S ASSOCIATION**

Mr. BALDWIN. Thank you, sir. I appreciate the opportunity.

I am president of the Florida International Agriculture Trade Council and president of the Florida Cattlemen's Association in 1991.

The Florida Cattlemen's board of directors in 1991 voted unanimously to be opposed to the NAFTA agreement as it was written. The general membership meeting in 1993, this past June, the vote was also unanimous against the agreement as it is written. We have grave concerns about all of the livestock diseases that have come through Mexico into the United States through the years. These are everything from fever tick to screw worms to TB and brucellosis. These have been recurring the last several years with cattle coming from Mexico. Even though we have tight regulations at the border and all these cattle come in on health papers, we still have TB, we still have screw worms. We have spent literally billions of dollars the last 65 years in this country trying to eradicate these diseases, and we strongly feel that the border needs a much stronger health regulation.

We are also in very much agreement with our fruit and vegetable people in this State. We try very hard to present a united front in Florida for agriculture. I have been involved with the Florida International Trade Council since 1965 when it started and have served as its president for the past 7 years. No agreement, as far as I am concerned, is a good agreement unless it is good for both sides. I have helped many times other countries export a product that they needed to move, but I always tell them up front that we are not interested in sending anything into the United States that we are already producing that will compete with our products.

We provide the safest food on Earth, we provide by far the cheapest food at the average income of Americans, and we can continue to do this as long as we are not held hostage by a foreign country. You know, we have the greatest technology on Earth in agriculture in this country. We certainly hope that you all will give us the opportunity to continue to help Third World countries and countries all over the world to better their agricultural system so they can feed their people better. But we cannot do it with the terms of the NAFTA agreement today.

A very good example, before Hurricane Andrew, limes were selling in this country for \$8 a box. After south Florida's lime crop was wiped out, Mexican limes jumped to \$24 a box. That is just a tip of the iceberg as to what is going to happen to American agriculture if we go ahead with this agreement as it is written today, and we allow a large segment of our agricultural industry, particularly in south Florida, to be wiped out.

We urge you folks, and we have been fortunate enough to get three very good members on your committee from Florida. We urge you all to do everything in your power to get some rewording into this agreement, so that we can survive and that not only Florida agriculture but American agriculture can still be the one industry in the United States that can compete on a worldwide basis.

You know, we are tremendous exporters of agriculture. Every country on Earth would like to have the livestock genetics that we have in this country. And most of them, if they can afford it, are buying some of them. Our greatest fear though is letting diseases come back in. I have been in 28 countries in the last 7 years and how can we think that fruit and vegetables coming from Mexico can be as safe as the ones that we produce when the first thing they tell you when you are going to Mexico for a convention or

something, be sure you do not drink the water and do not eat any fresh fruits and vegetables.

Thank you.

[The prepared statement of Mr. Baldwin appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir.

Mr. Canady, do you wish to make any concluding statement?

Mr. CANADY. Yes, I appreciate that, Mr. Chairman. Again, I want to thank you, Mr. Chairman, for bringing the committee to Florida. I believe this has been a very helpful day for us on the committee and it will be helpful for the other members of the committee who were not able to be here, as we pass this along to them.

I think we have heard a united voice from Florida agriculture about the problems with the North American Free-Trade Agreement, as it is currently presented to us. We have heard not only from the people who run the businesses in Florida agriculture, but we have heard from the people who are there working in the fields, whose livelihood depends, and whose families depend, upon maintaining the strength of Florida agriculture.

Based on what I have heard today, I do not think that Florida agriculture can survive the NAFTA, unless we address some reforms that have been discussed. I will not rehearse those, but unless we can see some real relief through the side agreements and the implementing language, I for one will not support the NAFTA, because I do not believe that it is going to be fair to the people of Florida or good for the people of this State.

Florida agriculture is an important part of the economy of this State. We have heard some numbers here that have tried to minimize the significance of Florida agriculture in our economy. I would take issue with that very strongly. It is critical to our economy and we cannot abandon Florida agriculture. I for one will continue to work for improvements in the NAFTA, and if we cannot get the improvements that we need, that will address these problems, then I do not think we need the NAFTA.

And again, thank you, Mr. Chairman, and I appreciate Mr. Roberts also for taking the time to come to Florida and to hear directly from the people who are going to be affected here in this State.

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

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

I want to thank you for heeding our request to come to Florida and listen to the people who till the fields, work in the fields, and are responsible for the Florida production that we love, and we understand in your fairness you will evaluate the comments of this hearing, as well as comments at other hearings, to make your decision. I again also want to thank my ranking minority member Mr. Roberts for the nice words initially and also for coming to Florida.

We have heard today many stories and many concerns that we continue to have. Can Florida survive the short-term losses for the long-term gains under the current NAFTA proposal? We have heard some pluses for NAFTA today by some people who feel that we can compete with them, and we have heard the people who are in the fields doing the job and running the fields and these people

that do the job say they cannot compete unless they have a level and fair playing field.

The question is, we have to be extremely careful with this NAFTA that we do not trade away our top four crops in Florida and particularly three of the top four being our citrus, tomatoes, and cane sugar.

I listened real well to one gentleman who spoke about the Assistant Secretary of State who was just approved. This, to me, is the way sometimes Government works, it does not help us very well. The approval of this gentleman as Assistant Secretary, in my judgment, is like the fox watching the hen house when it comes to looking out for our interests in agriculture. I asked to testify and so did Mr. Canady in opposition to his appointment, in the Senate, and we were refused. But that is the way things go.

But also, Mr. Chairman, you heard people who usually do not get together on certain issues testify today in unison with the Florida Rural Legal Services and the farmers together, looking at changes. But you did not hear people today say they are opposed to NAFTA, only in its present form. They want a level playing field. So what it really means and what they really are stating is that there needs to be change in NAFTA. It can be changed and if there is to be a NAFTA, it must be changed.

I also would like to point out to everyone that this is the U.S.A. NAFTA sheet that was passed out to the Congress about 1 month ago. It is loaded with errors, and if you would care to, I have responded and my response to this goes in a dear colleague, to every Congressman in Florida next week, and there are copies on the table if you would like to pick those up because I feel that it certainly is slanted in the wrong direction and not a truthful statement.

Mr. Chairman, yes, agriculture is part of my life and has been for the past 20 years and will continue to be. We have a job ahead of us and we are going to have to work toward making sure that these side agreements are going to be with us.

I thank you again for your nonpartisan demeanor in working with the committee, and particularly on this issue, which is such a very sensitive one. Thank you, Mr. Chairman.

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

Mrs. Thurman.

Mrs. THURMAN. Mr. Chairman, I too again want to thank you and the committee in having the hearing here in Florida.

I can tell you since about 1988—1989, this State has been on record in both the Senate and the House of this legislature, against this particular agreement. It is unfortunate as we move ahead today that we still have not been heard through the trade negotiators, and we have been very disappointed in the reaction that we have received from either Presidents—Bush or Clinton—so we will be nonpartisan here.

But it is important that you have given the people here in the State of Florida this opportunity to speak. Mr. Roberts, I particularly appreciate your being here as well. I know that your time could be better served with a constituency that is going under such terrible times for them. But I also want you to know, as you all did for us during Hurricane Andrew, that the people of this State

have continually been out there collecting goods, pennies, money, and any other possible services that we can provide to your State and to your constituency because we certainly appreciate and understand the harm that they are facing and we do not even know what that is going to be over the next couple of years. So just know that our hearts are with you.

But I do want to also say that as long as I have been associated with agriculture in this State, I have never seen as united front put forth as I have today and over the last several years from all of those that have been concerned about Florida agriculture; nor will you see this probably happen again. However, we will take advantage of it as we can. When you can get labor, processors, packagers, growers, cattlemen, and hog producers, and all of them together to talk so united about one issue, that in fact gives me the indication of how strong the feeling is toward this particular issue as it faces Florida.

I also would like to say that I believe you also have heard the devastation that we believe comes to this State, as its second largest industry; not only in the fact that as I strongly believe and have strongly believed over the years, that we should have taken a strong lesson, a very strong lesson of what has happened to us with the oil industry where we have become dependent on a foreign source. I personally have said this since about 1982 as I sat on the Agriculture Committee, that I always thought that agriculture in this country—and of course focusing on Florida—is that it would be the start of the third world war, and I still believe that. I believe very strongly that as we go through this agreement, that we make sure that we do not become dependent on a foreign country for our food supply. And if you look at the commodities within this State and knowing that you are the producers of more than one-half of the fruits and winter vegetables within this country, it makes a strong argument as to why Florida's farmers need to be represented and considered. Also from communities being destroyed that have been built around the farming communities, their businesses, whether it is the pharmacist, whether it is the doctor, whether it is the realtor, whether it is the tractor salesman, whether it is the pesticide or the feed or whoever it is; those are part of those communities as well and they are very strong parts of these communities. And I hope that we do not lose sight of them because they are very much a part of Florida's economy.

And I am going to take a little bit of exception to one of the comments that was made from the Chamber of Commerce in Dade County. When Doyle Connor was still commissioner of agriculture, he gave me what I thought was a very high honor and that was to serve as the chairman of Farm City Days for 2 years for the State of Florida. Many of you may not know that, but I traveled around this State in many different areas looking at agriculture within this State and the progress that it had made over the years. But why I bring this up specifically is because I was asked to speak at this particular chamber of commerce in the greater Dade area. And I went in there and I explained to them that they were somewhere in the top 25 cities in this country of production of agriculture. I wish you could have seen the looks on these people's faces—they had not a clue of what was even around their own

area, of the impact that Florida agriculture had to their areas, to their part of the State; nor did West Palm, which is right on the other side in Palm Beach County, another high production area. It is what we have always been trying to do and it is to try to tell our side of the story from agriculture.

So with that, Mr. Chairman, let me just say to you, you have helped us tell our side of the story and we hope you have taken our comments to your heart as we go forth in this agreement.

Thank you.

The CHAIRMAN. Thank you very much, Mrs. Thurman.

Mr. Roberts.

Mr. ROBERTS. I would like to again thank all of the people for taking time out of their busy schedule, and coming here today. It was an effort to learn a lesson and we have done that. And Karen, thank you very much for your kind comments in regard to my constituents who are going through a tough time. I represent two-thirds of Kansas and out in the West, we usually pray for rain. As of this year, we could not get the spigot turned off. So we will be going through a 66-county tour in August, takes us about 5,000 miles and about 3 weeks. It is not going to be a pleasant task, but it is something that we want to do to make sure that all of the FEMA help and all the disaster assistance on the ag side is coordinated as best we can. I told somebody out there in the lobby who thanked me for coming, that it is always helpful to come in somebody else's pasture and I had promised Tom and I had been wanting to do that for a considerable number of years. And to put yourself in their shoes or in this case, boots. And I am happy to see a couple of cowboys since I am from Dodge—and also Andy. And also happy to learn that you are just like the wheat growers, corn growers, and the pork producers in my Kansas Livestock Association, when you have a different view from your national organization, you sound off. And I am going to tell the NCA about that. Anytime you want to come in my office, we have a boot caucus, and so you are mighty welcome. And that goes for anybody connected with agriculture.

Mr. Chairman, I think the speeches have been made except for one thing. I think it is time you told these folks the submarine story.

The CHAIRMAN. Thank you very much.

Let me add my appreciation to all who have come and I assure you that your contributions are very important to us. The transcript of this hearing will be disseminated not only to members of our committee but for other members that may wish to review it.

Let me also thank staff who organized this, and the local organizations who have worked with us to see that we got as wide a representation as we could in order to make this a worthwhile meeting.

By the way, Mrs. Thurman, I share your frustration with the negotiators, both Presidents Bush and Clinton. Usually with the meetings in Washington, of necessity, we have only the association representatives or the official, city or State or county representatives. Within the constraints that we have on money for the committee and for travel, we are probably the only one that reaches out the most to our constituency. We have hearings from Montana

to California to Florida. We even had a hearing in New York City for the consumer side and for the small producers that come to the farmer markets in New York City or its surroundings. I almost detoured to see the little farmer market over here under the speedway or the freeway. I may go back on the way out, to visit with him.

But now for the submarine story. Who we are, what we do, what it means to us and what it has meant to the world. Not necessarily to us. One of the witnesses almost quoted me, we are the best fed people in the history of the world for the least amount of disposable income per family, getting the highest quality in the world. I think one of the greatest tributes to American agriculture was paid to me on a trip home 3 weeks ago. I shared a seat with a gentleman, and usually I do not say who I am or what I do because you can imagine what the rest of the trip is going to be like. So usually when they ask what I do, I say I sell life insurance. And that is the end of the conversation. [Laughter.]

This gentleman fooled me. He gave me the impression that he might be some fancy doctor from Houston going to Washington. So I told him who I was. Well, I think this is a tribute to American agriculture—he works for something called International Center for Productivity and Quality. This is a big operation in Houston and he is the executive vice president. In the course of the conversation I said, do you do anything with agriculture. He said no, they do not need it. This is a fellow who works on productivity and quality with the rest of business in America. But he says agriculture does not need that. So I think it is a tribute.

And now the submarine story. During the cold war, as you remember—and they are dismantling them now—we had missiles aimed at the Soviet Union, they had missiles aimed at us. And I always knew that there had to be something that kept them from going over the brink. Several years ago I went on a submarine, a nuclear-powered, nuclear-armed submarine. I had been in the Navy, but the longest I was on a ship was 6 weeks during my Navy career, and I never got a chance to go on a carrier or a submarine. So in the Congress, we have these liaison staff people and eventually I got invited on a carrier and I got on a destroyer. During my little service I had been on a cruiser, the U.S.S. *Macon*, after World War II ended. The final thing I had not done was to be on a submarine, so I asked to go on a nuclear-powered submarine.

Well I will shorten it, but the Navy liaison said I do not know, you have to be cleared for secret. Well Members of Congress are technically cleared for secrets, some of us leak now and then, but we are cleared for secret. When I was in the Army during the Korean War, I served a stint as a General's aide and I had to be cleared top secret for that job. So I told him, hey, I have top secret. Then he came back and said you may have to lose a few pounds. I said hey, they do not want me on that danged sub. Well no, he was right, you ought to see how small that little hole is you go in and out. So I lost my pounds and off we went.

We did it all off of Mayport, Florida. We flew down here, we picked it up in Mayport, we went out into the Atlantic, we did everything. They let me fly it—for those of you that fly, you fly a submarine like an airplane; right, left, down and up. We are coming



back late in the evening at sunset and there was not even a ripple on the water. The young Commander and I were up on the conning tower. I say young because the median age of our submariners is 23 years old, those are the men that run our submarines. So we are sitting up on the conning tower, there was not even a ripple on the water, all you could hear was shhh-shhh-shhh of the motor propelling that ship.

So I had been told that the reason the Soviet Union had not gone over the brink was the submarine. Every minute of the day, they knew where our troops were. Every minute of the day, they knew where our ships were in port or at sea. Every minute of the day, they knew where our planes were on land or in the air. Everybody knew where our missiles were. The only thing they did not know where it was was the submarine. And that submarine had the capacity to destroy the world as we know it—us and them and the whole thing. So we knew that what kept them from going over the brink was that submarine. So I asked the Commander, how long can you keep this thing underwater. He looked at me and said that is a military secret. I said come on. So then he says well take a guess. So somewhere I had heard—and actually in actuality, this is no military secret—the propellant for the submarine, the nuclear propellant, lasts longer than the submarine. But somewhere I had heard 15 years. So I thought well 15, I will cut it in half. I guessed 7 years. He says no. He says I can keep the submarine underwater as long as I have food for my crew. That was the deterrent, it was not the nuclear component, it was food.

So if there is peace, if there are new developing democracies, if the world is turning around for the better, it was the farmers and ranchers of America who did it. That young Commander of a submarine is the one who told me that in a very simple but yet eloquent statement. This is what agriculture does, it brought peace and, hopefully, it will bring prosperity to the world.

This hearing is part of addressing that issue. So with that, we will close. I thank all of you for being here. God bless you and we will stand adjourned.

[Whereupon, at 1 p.m., the committee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

TESTIMONY

ON THE

NORTH AMERICAN FREE TRADE AGREEMENT

by

BOB CRAWFORD

COMMISSIONER OF AGRICULTURE

STATE OF FLORIDA

U. S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE  
FIELD HEARING

ORLANDO, FLORIDA  
July 31, 1993

Mr. Chairman, may I welcome you to the great agricultural state of Florida and may I thank you and the committee for holding this, the first major field hearing on the North American Free Trade Agreement (NAFTA) in Florida. In the past months, we have heard many describe the trade agreement as America's salvation and just as frequently NAFTA has been described as the probable cause of America's destruction. The truth probably lies somewhere in between. One item is very clear - NAFTA, as now written, is not the right trade agreement. Certainly, not for Florida agriculture. Those of us in Florida agriculture are still extremely concerned with what we see are long term destructive effects from the agreement as now written and we are anxiously waiting to see if any effective provisions are incorporated in the side agreements.

Mr. Chairman, I applaud your personal efforts to provide for an effective dispute settlement mechanism, for this is one item critically needed in this agreement. We are also pleased that the Administration has been responsive in listening to Florida agriculture and we remain hopeful that you, Ambassador Kantor, Secretary Espy and the Administration may find some solutions for our critical areas of concern and need. We are fighting for our life and for our future.

From the earliest discussions proposing the North American Free Trade Agreement, Florida agriculture has been united in our views. Florida winter produced fresh fruit and vegetables, citrus, sugar and their products are labor intensive, import sensitive commodities that should have been excluded from the agreement until labor, environmental, food safety, standards, and other issues had been resolved. The actual language of the finished agreement confirmed our worst fears - our needs were not addressed. Now we await the finalization of the side agreements, the last chance to provide for continued strength of Florida agriculture.

At a recent luncheon of our southern agriculture commissioners in San Antonio, Chairman Don Newquist of the International Trade Commission discussed his positive views on NAFTA but indicated that in addition to some big winners, there were also big losers. And the big loser is Florida agriculture.

Hurricane Andrew, the droughts of the East, the horrible flooding of the Midwest, the continuing effects of urbanization - none of these are perceived to be as big a threat as NAFTA. Our farmers are resilient - they can withstand the effects of weather, they can understand the economic effects of an Act of God. But they can't understand the decisions of their own government to compromise our domestic food production, our labor force and the very environment on which we depend.

Florida agriculture produces cash receipts of \$6 billion dollars with an overall economic impact of \$48 billion to our state's economy. 20% of the workforce of our state and other states is

judged by the U. S. Department of Labor to be agriculture associated.

Report after report indicate benefits of NAFTA to various segments of the U.S. economy, yet all indicate the damage to Florida agriculture from the proposal. The most recent report from CAST, the Council for Agricultural Science and Technology indicates "The dislocations and benefits of the agreement will tend to have strong regional effects. The fruit and vegetable producers in Florida, California, and Arizona will bear a significant share of the adjustment costs from trade liberalization. Most analysts believe these adjustments will tend to be concentrated in Florida."

Mr. Chairman, this does not have to be. Modifications in the side agreements can offset the negative effects of NAFTA and provide Florida food producers the equitable framework which we must have to survive.

Equalization of labor, environmental and standards issues as well as adequate enforcement of all provisions of the agreement are critical to agriculture. Trade will be neither free nor fair without the same requirements on all sides of the borders. Side agreements must call for deadlines for equalization or harmonization of standards within 10 years of agreement implementation.

The Florida winter-produced fruits and vegetables have been judged the most sensitive and affected commodities by all international trade experts and trade in sugar one of the most volatile, yet when the dust settled on the agreement, only orange juice was included in the longest phase-out period for tariff reductions. We needed the longest transition period possible for our winter produced fresh fruits and vegetables to afford our producers the maximum time for adjustment.

The safeguards included at this moment are still inadequate. The side agreements or side letters need to include a price based as well as the volume based special safeguard mechanism for our perishable commodities. Addition of a price based mechanism can be included in a side letter in addition to the volume based mechanism already in the agreement, and does not reopen the agreement. In addition, the tariff windows for the tariff rate quota should be no longer than 30 days. The general safeguard mechanism should also be strengthened and have no restrictions on its use. How will import surges be addressed? Provisions must be included.

Safeguards and enforcement procedures are all based on statistics. We must have adequate figures on which to base any decisions and judgments. How can we adequately calculate trade status in sugar and other commodities without reliable figures? We cannot and therefore adequate enforcement cannot occur without them.

We have not seen adequate enforcement measures for prevention of substitution. Transshipments are prohibited, but enforcement is

essential. Substitution is particularly a critical area for trade in sugar. Another necessity is defining sugar to include corn sweeteners to reflect current world usage of the various sweeteners.

Language of the agreement speaks to enforcement of sanitary and phytosanitary standards but specifics are lacking. Many of our Mexican colleagues describe the effects of NAFTA as one of latitude and on this we agree. Florida, as a subtropical state of similar latitudes, is vulnerable to the threats of plant and animal pests and diseases. Both countries need adequate protection. To combat these pests, we must have adequate chemical and biological agents. Permitted uses of pesticides must be the same on both sides of the border.

The unified position of Florida agriculture has been presented to the Agriculture Committee before and has been included in my testimony to reiterate to you our continued concerns. In addition, I present to you a resolution of the Governor and Cabinet of the State of Florida indicating the concerns of Florida agriculture with the current provisions of the agreement. Also, attached are further comments regarding citrus and sugar.

Increased fair international trade is our goal. NAFTA as currently written is not fair. Total urbanization of the Florida environment is not acceptable. Multibillion dollars for retraining of our agricultural workers is not acceptable. Diminished food safety and environmental standards are not acceptable. Florida wants to grow the food and plants on which this nation depends. We want to continue to grow the food this nation needs and we want to grow it in fair competition with our global neighbors.

The concluding comment of the CAST report quotes "The only way to assure that our standard of living continues to grow is to seek to make ourselves more competitive, not to protect our economy." This sentence, while true, is better phrased, "The only way to assure that our standard of living continues to grow is to seek to make competition fair and to seek to make ourselves more competitive, not be disrupt our economy."

(Attachments follow:

Verbal Statement by:  
 Florida Agriculture Commissioner Bob Crawford  
 U.S. House Agriculture Committee Hearing

Orlando, Florida  
 July 31, 1993

Mr. Chairman, members of the committee, ladies and gentlemen, thank you for this opportunity to speak to you about an issue of grave concern to Floridians.

In the past few months, we've heard a lot about what the North American Free Trade Agreement will mean to America. We've heard that it will be America's "salvation". And we've heard that it will be our downfall. The truth probably lies somewhere in between.

This much we can all agree on:

NAFTA will be Mexico's salvation. And the right trade agreement probably could benefit the U.S. as well.

My message today is simple:

-THIS- IS NOT THE RIGHT TRADE AGREEMENT.

It sacrifices jobs that we will never recover. And it sacrifices our agricultural self-sufficiency. Simply stated, we will lose the ability to feed our own people.

That's basic. Important. And worthy of special consideration.

As I watch Midwestern farmers struggle to recover from a devastating flood and Southeastern farmers struggle to survive the effects of a crippling drought, I am impressed, once again, with the ability of American farmers to survive.

Our own Dade County farmers, who less than one year ago were demolished by the worst hurricane in Florida history, have rebounded to produce America's winter vegetable crop once again.

You see, Florida farmers can recover from an act of God. They're well-practiced at it. They know it comes with the territory. But NAFTA, in its current form, represents a kind of economic storm that our farmers cannot survive... a storm that packs a punch that will surpass any act of God and that will not go away.

All our farmers are asking for is fairness. They can't comprehend how it can be a good strategy for this country to toss an enormous, unfair advantage to their number one competitor.

Is there really any doubt that NAFTA is a one-sided contract?

Do you really think Americans won't pay the price for this agreement?

Consider this: Before Hurricane Andrew... Florida limes were selling for \$8 a box. After the storm, Mexican growers nearly tripled the price.

That's the kind of agriculture market NAFTA will produce. A market that benefits only the country holding the monopoly.

We're reading a lot these days about products that America no longer produces, products that you simply can't buy here.

Well, it's one thing to depend on other countries for typewriters and tape recorders but it's bad public policy to depend on a foreign nation for our tomatoes, oranges, strawberries and lettuce. It's bad policy to depend on Mexico for our nation's winter food supply.

Now, I appreciate the fact that Congress is pushing for additional funds to retrain workers who lose their jobs because of NAFTA, but, frankly, our farmers don't want to be retrained. It may sound a bit cliché' but, farming isn't a job; it's a way of life. A way of life we're not ready to part with.

For years we have proudly declared that our nation feeds the world. In fact, many of us attribute the toppling of communism to the failure of those countries to produce enough food for their people.

Yet, today, we're poised to give it all away.

Florida will lose thousands of jobs and millions of dollars under this agreement.

If Florida loses a third of its \$6 billion agriculture industry -- and yes, we believe that will happen -- we will lose 54,000 jobs. That's more than one-third of all the jobs that economists estimate America will lose under NAFTA. That is too great a price for Florida to be asked to pay.

A price that will impact all walks of life.

Several years ago, our Tampa Bay area was very excited to attract the Super Bowl and reap the revenues that event generated. And yet, it's easy to overlook the fact that agriculture's contributions to that same area are equivalent to eight Super Bowls -- year in and year out.

Ladies and gentlemen, some things are just too good to trade.

We believe the United States should never be dependent on another nation for the food we eat. And we believe a trade agreement that sacrifices agricultural self-sufficiency and U.S. jobs is bad public policy.

I am very hopeful that Ambassador Kantor can negotiate side agreements that will level the playing field with regard to environmental, food safety and labor standards. With those changes, it might be possible to produce an agreement that will benefit America and allow Florida farmers to do what they do best -- grow America's food.

Without those changes, Florida cannot support this agreement.

For the committee's benefit, I brought with me today a resolution signed by the Governor and Cabinet expressing Florida's united opposition to a NAFTA that hurts Florida agriculture.

I would also like to present you with copies of more than 10,000 signatures signed by farmers and others associated with agriculture in opposition to NAFTA in its current form. These petitions are still being circulated and signatures continue to pour in.

I hope this committee will consider the concerns of these men and women in your deliberations.

Thank you for this opportunity to speak to you.





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 tariffed. The U.S. has a Section 22 waiver, and inasmuch as Canada's dairy and poultry regimes will not be tariffed, 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.

## HOW NAFTA AFFECTS FLORIDA AGRICULTURE

Agriculture is a mainstay of Florida's economy

- \* \$6 billion a year in cash receipts.
- \* \$40 billion a year total infusion into Florida's economy.
- \* An estimated 500,000 jobs.
- \* NAFTA would cost Florida \$2 billion a year in cash receipts and 50,000 jobs.
- \* U.S. Department of Labor estimates that 20 percent of U.S. labor force is associated with agriculture.

Mexico is Florida's number one competitor

- \* Florida produces 50 percent of U.S. supply of fresh fruits and vegetables.
- \* Mexico produces 60 percent of cucumbers, 30 percent of tomatoes, 30 percent of peppers and 50 percent of squash consumed in the U.S. in the winter.
- \* Growing seasons in Florida and Mexico are almost identical.
- \* Mexico is a major producer of all winter fruits and vegetables, especially tomatoes, fresh oranges, orange juice concentrate, squash and cucumbers.
- \* U.S. currently imports 90 percent of Mexico's agricultural exports.

But Mexico enjoys major competitive advantages

- \* Mexican growers use free or subsidized land, child labor, powerful pesticides that are banned in the U.S., pay no minimum wage or workers compensation benefits, and are subject to little environmental or food safety oversight restrictions or standards.
- \* Florida growers face expensive land costs, receive no government subsidies, use no child labor, pay different minimum wage and workers compensation benefits, use only government approved and regulated pesticides, and meet strict environmental and food safety standards.

Tariffs are modest, but help level playing field

- \* Existing tariffs on imported Mexican produce are extremely modest, amounting to \$.033 cents per kilo on winter tomatoes, \$.01 cents per pound on fresh oranges, and \$.055 cents per kilo on peppers.
- \* These tariffs contribute little to the cost of food. In contrast, competition from Florida acts to keep food prices down. For example, before Hurricane Andrew, Mexican limes were selling for about \$8 a box. After the hurricane, with Florida out of the marketplace, Mexican limes climbed to \$25 a box.

Proposed phase-outs will hurt Florida farmers

- \* Under the current agreement, tariffs on cabbage, carrots, cauliflower/broccoli, celery, cherry tomatoes, cucumbers, eggplant, grapefruit, some lettuce, some melons, onions, pecans, strawberries and watermelons will be phased out immediately.
- \* Tariffs on some broccoli, some lettuce, fresh oranges, bell peppers, potatoes, spinach, squash and tomatoes will be eliminated within five years.

Mexico is gaining marketshare without NAFTA

- \* Mexican agricultural exports rose 12 percent in each of the last seven years.
- \* Since 1991, Mexico has gained marketshare relative to Florida for these commodities:
 

- Beans	Florida	--	down	28.0 percent
	Mexico	--	up	19.5 percent
- Cucumbers	Florida	--	down	11.0 percent
	Mexico	--	up	30.0 percent
- Eggplant	Florida	--	down	12.6 percent
	Mexico	--	up	13.0 percent
- Peppers	Florida	--	down	22.4 percent
	Mexico	--	up	50.6 percent
- Squash	Florida	--	down	25.0 percent
	Mexico	--	up	3.5 percent
- Tomatoes	Florida	--	down	23.8 percent
	Mexico	--	up	122.3 percent
- Cherry tomatoes	Florida	--	down	34.2 percent
	Mexico	--	up	14.0 percent

# State Of Florida

## RESOLUTION

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

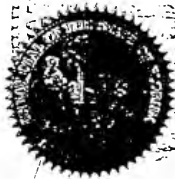
WHEREAS, differences in environmental protection, labor requirements, farm worker safety, sanitation laws and workers compensation give Mexican growers an advantage to the detriment of Florida growers in what should be a fair trade agreement.

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*  
LAWTON CHILES  
GOVERNOR

*Jim Smith*  
JIM SMITH  
SECRETARY OF STATE

*Bob Butterworth*  
BOB BUTTERWORTH  
ATTORNEY GENERAL

*Gerald Lewis*  
GERALD LEWIS  
COMPTROLLER

*Tom Gallagher*  
TOM GALLAGHER  
TREASURER

*Bob Crawford*  
BOB CRAWFORD  
COMMISSIONER OF AGRICULTURE

*Debbie Chester*  
DEBBIE CHESTER  
COMMISSIONER OF EDUCATION



NAFTA CITRUS ISSUE WHITE PAPER  
ON  
BOTH PRICE AND VOLUME CONTROLS

The United State citrus industry is highly import-sensitive because, as a fresh agricultural product industry, it is subject to unpredictable effects on its crops (weather, storms, tree and crop ailments, etc.) and to external market factors, especially those caused by the world-wide glut of citrus products and increasing planting of citrus in numerous countries far beyond their small domestic consumption. Such foreign capacity increases, which are practically uncontrolled, are aimed directly at the United States market. Mexican additions are estimated by the USITC at 17% for the next year and imports from other sources, especially Brazil, will substantially increase the pressure on the Florida industry already under siege.

Direct-shipments from non-NAFTA countries, such as Brazil, already exert a significant influence on U.S. prices. In this circumstance, preferential treatment of Mexican citrus under NAFTA would become the trigger for disastrous price wars. Therefore, it is essential that the Mexican tariff-rate quota be subject to both break-even price and volume-surge safeguards.

The following facts explain why it is absolutely essential to have both volume and price safeguards included in the tariff-rate quota program proposed with respect to citrus imports under NAFTA:

- \* A safeguard mechanism, tied solely to volume surges from Mexico, is inadequate to counter the severity of the pricing impact and the influence of world suppliers. While volume-surge safeguards are needed, low import prices are generally

an equal if not greater cause of injury to Florida citrus growers. With respect to frozen concentrated orange juice (FCOJ) in particular, the delivered price for juice reflected in futures prices on the New York Cotton Exchange has a direct impact on growers who receive the residual returns under cooperative or participant agreements. Therefore, Florida Citrus Mutual urges the requirement of a tariff-rate snap-back whenever import prices fall below the calculated break-even price for Florida growers over a 20-day average period.

- \* The existing duties on citrus are specific rates rather than ad valorem rates. A critically important characteristic of this form of duties is that they afford producers protection during periods of large foreign supplies and low prices. When prices increase because of short crops, the incidence of the specific duty falls and reduces its impact on the volume on imports and domestic prices. On the other hand, during periods of high yields and excess of foreign supplies abroad, when prices are relatively low, larger quantities enter irrespective of the tariff-rate quota, and this becomes the crucial element in the viability of the domestic industry. Under such circumstances, a volume-based safeguard can prevent the damage caused by precipitous price declines, before it occurs.
- \* The NAFTA Citrus Agreement will cover only imports from Mexico. Of equal or greater concern are the even larger

volumes of FCOJ and citrus products available from suppliers in Brazil. It is acknowledged by the entire industry that those Brazilian supplies will enter the U.S. market at whatever price level is established by the lowest cost supplier, and in whatever volume is available in a given season. Thus, it is even more critical that the lowest-priced participant, Mexico, be subject to both volume and price-based safeguard mechanisms under the NAFTA, in order to prevent rapid price deterioration in this import-sensitive commodity market.

FCM

6/22/93

## PROPOSAL FOR NAFTA SIDE AGREEMENT

The Florida citrus industry submits that side agreements between the U.S. and Mexico with respect to the North American Free Trade Agreement should provide as follows:

## (1) ENVIRONMENTAL

National environmental standards applicable to agricultural production, particularly with respect to chemical fertilizers, herbicides, fungicides, and other aids to citrus cultivation, must be harmonized between the United States and Mexico. Tariff reductions for fresh citrus and processed citrus products, provided for in the Schedule to Annex 302.2, Chapter 3 of the NAFTA, shall not commence until both countries meet the same environmental and health protection standards, as enforced by the countries' respective environmental regulatory agencies. The determination as to whether full harmonization of standards has been achieved shall be made by a bi-national review panel, consisting of an equal number of members from each country, and should include at least one representative of the U.S. Environmental Protection Agency.

## (2) LABOR STANDARDS

National labor regulatory standards applicable to agricultural production, particularly with respect to the maintenance and harvesting of citrus groves, must be harmonized between the United States and Mexico. Tariff reductions for fresh citrus and processed citrus products, provided for in the Schedule to Annex 302.2, Chapter 3 of the NAFTA, shall not commence until both countries meet the same worker safety and health standards, as enforced by the countries' respective labor regulatory agencies. The decision as to whether full harmonization of standards has been achieved shall be made by a bi-national review panel, consisting of an equal number of members from each country, and should include at least one member from the U.S. Department of Labor and/or the Occupational Safety and Health Administration.

## (3) SAFEGUARDS

The Agreement should provide for a safeguard procedure for fresh citrus and processed citrus products which permits tariff snapback protection triggered by import price changes alone, regardless of whether they are accompanied by short or long term changes in import quantities. The procedure as applied to citrus should follow the principles established in the suggested NAFTA implementing legislative language set forth below.

In order to assure that information necessary to utilize the safeguards provision is available, the U.S. and Mexican Governments must agree to exchange information, and facilitate the collection of data, as set forth in the Implementing Legislation below.

In addition, the Safeguards Agreement should provide for an immediate initial finding that the U.S. and Mexican citrus industries are import sensitive. As a consequence, the tariff reductions for citrus provided for in the Schedule to Annex 302.2, Chapter 3 of the NAFTA shall be delayed for a period of ten years, and all tariff reductions will take place over a five-year period thereafter.

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PROPOSAL FOR NAFTA IMPLEMENTING LEGISLATION

The Florida citrus industry submits that, notwithstanding the proposals set forth above for the side agreements between the U.S. and Mexico, the U.S. NAFTA Implementing Legislation should incorporate the following terms:

(1) Citrus Safeguards.

(a) In addition to emergency actions provided for under Chapter 8 of the Agreement, there shall be a special emergency action for citrus products imported from Mexico.

(b) Notwithstanding that imports of citrus products from Mexico may not be increasing in absolute quantities so as to constitute a substantial cause of serious injury or threat thereof to the domestic industry, the Secretary of Agriculture shall take action whenever he determines that:

(I) the twenty-day average bulk futures price for FCOJ is less than the minimum season average breakeven price for bulk FCOJ; or

(II) the twenty day average spot market price for deliveries of fresh citrus for processing is less than the minimum season average breakeven price for that citrus product.

(c) In the event either of the circumstances set forth in subsections (b) (I) or (II) occur, the Secretary shall report his findings under this Section and to the President, and the President shall proclaim that tariffs on the affected product imported from Mexico revert to the prevailing most-favored-nation rate under the General Agreement on Tariffs and Trade.

(d) The action taken under subsection (c) shall remain in

effect until either:

(I) An action is taken pursuant to Article 8 of the Agreement, or

(II) If no investigation is commenced pursuant to Article 8, then until the Secretary finds that the price for the appropriate product imported from Mexico has increased to a level higher than the average prices determined to exist under subsections (b) (I) or (II), whichever is applicable, and has remained above such level for a period of thirty consecutive days.

(e) The determinations under subsections (b) (I) or (B) (II) shall be made by the Secretary in consultation with appropriate offices within the Department, and pursuant to the definitions set forth in subsection (f).

(f) Definitions.

(I) "Bulk futures price for FCOJ" is the closing daily price published for FCOJ contracts by the New York Cotton Exchange.

(II) "Spot market price" means the Florida average yard price for fresh fruit deliveries.

(III) "Citrus products" means all products classifiable under the following HTSUS headings:

2009.11, 2009.19.10, 2009.19.20 orange juice

2009.20, 2009.20.20, 2009.20.40 Grapefruit juice

0805.10 fresh oranges

0805.40 fresh grapefruit

(IV) "FCOJ" means frozen concentrated orange juice.

(V) "Minimum season average breakeven price" means the minimum price per pound of orange solids determined by the Secretary for the previous full growing season to meet current operating costs and debt service requirements for an efficiently operated grove in Florida, utilizing data provided by the Florida Department of Citrus and Florida citrus industry sources. With respect to concentrated citrus juice, 20 cents shall be added to the price to reflect the cost of processing.

(2) Enforcement of Origin Rules for Citrus Products.

(a) Notwithstanding any provisions in Chapter 5 of the NAFTA, in order to enforce the rules of origin applicable under the Agreement to citrus products imported from Mexico, the President shall negotiate with the Government of Mexico further arrangements to share information between the customs services and agricultural ministries of the two countries. Such information shall include at a minimum:

(I) Monthly fresh fruit and processed citrus product import and export data;

(II) Monthly citrus juice production and export data;

(III) Monthly data on third country shipments of citrus;

(IV) Monthly data on inspections by the respective customs services of shipments of citrus between Mexico and the United States.

(b) The Secretary of Agriculture shall designate an office within the Department to be responsible solely for maintaining data accumulated for purposes of verifying citrus trade, and to be utilized with respect to any emergency relief actions described under subsection (1) above.

(c) Each entry of FCOJ for which NAFTA origin and tariff treatment is claimed shall be accompanied by a certificate of origin in the form designated by the customs service, attesting to the origin of both the juice covered by that entry, and to the origin of the fruit utilized in producing that juice. Each such entry shall also be accompanied by a certificate from the processor or other entity who first extracted the juice from the fruit, attesting to the origin of the fruit utilized in the production of that entered quantity of juice.

(d) Each entry of juice imported from Mexico shall be subject to physical examination by the U.S. Customs Service, or by a USDA inspector present at the port of entry.

## NAFTA: U.S. Sugar Industry Recommendations

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.



A PETITION FROM  
**THE PEOPLE IN FLORIDA AGRICULTURE  
 AND ITS AFFILIATED INDUSTRIES**

TO

**THE PRESIDENT OF THE UNITED STATES OF AMERICA**

***STRONGLY URGING THAT SIDE AGREEMENTS BE NEGOTIATED IN THE NORTH  
 AMERICAN FREE TRADE AGREEMENT TO PROTECT FLORIDA AGRICULTURE  
 FROM POTENTIAL ECONOMIC DISASTER.***

WE, THE UNDERSIGNED, are owners, shareholders, workers or employees in the citrus, fruit and vegetable, sugar and affiliated agricultural industries of Florida, including both growers and processors of these products and supporting industries such as suppliers and services, research, finance and insurance.

We are greatly concerned about the probable impact of the pending North American Free Trade Agreement on these Florida industries and on our families and communities. **Numerous well-documented factors indicate that the ratification and implementation of this agreement in its current form would have a disproportionately deleterious affect on Florida agriculture, to wit:**

**THE MARGIN OF DIFFERENCE BETWEEN PROFIT AND LOSS**

The NAFTA will result in **substantial tariff reductions**, and eventual duty elimination on citrus fruit, processed citrus including orange juice, fresh vegetables, and sugar. It will also eliminate quota program and Section 22 protections for sugar and peanuts;

**THOUSANDS OF JOBS WOULD BE LOST**

The U.S. International Trade Commission, the Congressional Research Service, the Florida Department of Agriculture and numerous agencies have compiled extensive data and completed objective studies which indicate that **the NAFTA in its current form will result in production cutbacks, declining prices, reduced acreage and thousands of lost jobs** as a result of new Mexican imports of these products. Imports of citrus products alone are conservatively estimated to increase by 17 percent;

**THE PLAYING FIELD MUST BE LEVELED**

**Mexico does not incur many of the environmental, food purity, worker safety and wage regulatory costs which must be borne by Florida agriculture.** Therefore, the competitive Mexican industries enter the NAFTA with substantial artificial advantages due to broad disparities in government policies. For instance, Mexican costs in the citrus sector are only 49 percent of Florida grower costs, and this difference is obviously not attributable to natural comparative advantages;

### **FINANCIAL WOES BEYOND THE FARM**

Because many of the Florida agricultural industries entail long term commitments of financial resources, **the rapid elimination of equalizing tariffs** for these products will prevent growers from realizing adequate returns over the life of their investments. This will cause serious disruption for local and state-wide agricultural financial institutions and, consequently, for other community institutions as well.

### **GET SERIOUS ABOUT THE SIDE AGREEMENTS**

The Administration has paid inadequate attention to the special needs of these industries under the NAFTA, both during the initial negotiations and during the negotiation of so-called "side agreements" on environmental, labor and safeguard issues. Therefore, the NAFTA signed by the United States, Mexico and Canada fails to address the serious problems set forth above.

**IN CONSIDERATION OF WHICH, we hereby state our unified position on the NAFTA as follows:**

❖ **The President should instruct the U.S. Trade Representative to negotiate with Mexico side agreements to the NAFTA which provide that:**

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❖❖ **Tariff reductions** for citrus, fruits and vegetables, sugar and peanuts **shall not commence until environmental standards affecting production and cultivation are harmonized** between the United States and Mexico;

❖❖ **Tariff reductions** for citrus, fruits and vegetables, sugar and peanuts **shall not commence until labor, safety, health, and security standards are harmonized** between the United States and Mexico;

❖❖ **A safeguards agreement** be included as a supplement to the provisions in the Agreement, **with supplemental language requiring that tariffs revert to their 1993 levels if import prices decline to defined, critical levels for each Florida agricultural commodity.**

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**IF THE FOREGOING SIDE AGREEMENTS ARE NOT NEGOTIATED, WE URGE CONGRESS TO VOTE AGAINST THE RATIFICATION AND IMPLEMENTATION OF THE NAFTA.**

**ACTION REQUESTED****memorandum**

June 15, 1993

**TO:** FCM Officers & Board of Directors  
FCM Field Representatives  
Labor & Associated Industry Groups

**FROM:** Bobby F. McKown, Executive Vice President

**SUBJECT:** NAFTA Petition to the President of the  
United States of America

**YOUR ASSISTANCE IS URGENTLY NEEDED IN HELPING FLORIDA CITRUS MUTUAL AND THE FLORIDA AGRICULTURAL INDUSTRY GENERATE ABOUT HALF A MILLION SIGNATURES ON A PETITION WHICH WILL BE PRESENTED TO THE PRESIDENT OF THE UNITED STATES OF AMERICA ON OR ABOUT JULY 15, 1993.**

A copy of the petition as well as a series of signature pages has been reproduced and attached for your use. Please reproduce as many copies as needed and secure signatures from growers, employees, affiliated agricultural industries of Florida such as banks, irrigation suppliers, chemical fertilizer companies, etc.

**Please secure as many signatures as possible and return the petitions by July 9, 1993 to:**

Bobby F. McKown  
Executive Vice President  
Florida Citrus Mutual  
PO Box 89  
Lakeland, FL 33802

In addition to the citrus industry, we have distributed the petition to Commissioner Crawford, Florida Department of Agriculture & Consumer Services; Florida Fruit & Vegetable Association; Sugar Cane League; other citrus industry organizations plus Florida Farm Bureau, Florida Nurserymen and Growers, and most other agricultural industries within the State. Time is of the essence and we are convinced that the petition will prove very beneficial in getting a proper response from President Bill Clinton as it relates to NAFTA and the three side agreements addressing environmental, labor and safeguard provisions.

If you have any questions, please do not hesitate to call this office.

MCK:jb  
Enc. TELEPHONE (813) 682-1111 • P O. BOX 89 • LAKELAND, FLORIDA 33802

Florida Citrus Mutual (813) 682-1074

(The signatures are held in the committee files.)

**Florida  
Citrus  
Mutual**



**BOBBY F. MCKOWN  
EXECUTIVE VICE PRESIDENT  
AND  
GENERAL MANAGER**

STATEMENT BY DIEGO ASENCIO, EXECUTIVE DIRECTOR OF THE FLORIDA INTERNATIONAL AFFAIRS COMMISSION BEFORE THE HOUSE COMMITTEE ON AGRICULTURE, ORLANDO, FLORIDA, JULY 31, 1993

I am delighted to appear before the Agriculture Committee of the United States Congress to express my views and those of the Florida International Affairs Commission on the subject of the North American Free Trade Agreement. As you know, Mr. Chairman, Governor Lawton Chiles is the Chairman of our Commission.

I would like to submit as part of my testimony an Op-Ed piece that Governor Chiles wrote inspired by a Florida Trade Delegation to Mexico he headed in early June.

"Today, Florida and Mexico stand at a very decisive crossroad because of a revolution in global politics and economics. That revolution has shaken the world over the past five years.

"Nations have adopted the principles of free-market economics and self-determination. Coupled with the dynamics of the North American Free Trade Agreement, this revolution has altered dramatically the challenges and opportunities Florida faces at the dawn of the 21st century.

"Business in the global marketplace is becoming increasingly competitive. Not only do we compete with other countries, but we also must compete with other American states that are fighting to expand their share of overseas markets. "As part of Florida's international strategic planning process, we took a long, hard look at where we want to be in the world marketplace five and 10 years from now and the steps we'll need to take to reach those objectives. At the top of

that list is our trade relationship with Mexico.

"A strong partnership with Mexico makes good sense for Florida. We share a common history. Our cultures have been influenced indelibly by a strong native population, the Spanish exploration of the 1500s and the territorial expansion of the United States. The flags of Spain have flown over both of our lands.

"Many generations later, we still share a great deal. Our latitudes, our climates, our languages and even our attitudes create a mutual bond. If one were to draw widening concentric circles around South Florida, those circles would touch the Yucatan long before they touched Louisiana and Texas. We are closer neighbors than many people realize. "Despite all of this, historically, Florida and Mexico have not been strong trading partners. Florida neither participated in nor benefited from the overall tripling of trade between Mexico and the United States. I am determined to change this pattern of neglect by opening up trade channels and focusing on these exciting new areas of opportunity between our regions.

"Under the North America Free Trade Agreement, we want to make Mexico one of Florida's favored-trading nation' partners. The top five products Mexico imports are produced in Florida. Although Mexico buys fertilizers, computer parts, metal equipment, paper products and transportation equipment elsewhere, we plan to change that.

"NAFTA provides us with both challenges and opportunities. Florida's agricultural community is understandably concerned about the effect of importing Mexican citrus and produce. I have discussed these concerns with Mexican President Carlos Salinas de Gortari and believe there is room for negotiation. For example, the fact that the growing season for some of their citrus tends to be different may provide us an opportunity to pursue joint marketing strategies. Farmers are perhaps the most entrepreneurial business people I know. I have confidence that, together, we will meet the challenges and seize the advantages of NAFTA. "One of the fundamental requirements for a successful international business relationship is to understand your customers and clients. International education and cultural understanding build the foundation of long-term economic ties. For that reason, the Florida Legislature created the Florida Mexico-Linkage Institute, an educational program that will help us expand educational, cultural, technical and commercial cooperation between Florida and Mexico.

"This organization will support education linkage between institutions of higher education in Mexico and Florida. It also will administer a scholarship program that will waive out-of-state tuition for 25 students from Mexico each year.

"Another indication of the type of exciting joint research and business opportunities that exist between Florida and Mexico is a cooperative space research program between Spaceport

Florida and the Mexican state of Nayarit. The 'Florida and Nayrit Toward the 21st Century' project is engaged in aerospace development, ecology and marine biology research. This joint effort already has launched three space rockets over the past two years, including one that took place during my recent trade mission to Mexico.

"These joint ventures, and the relationship that were established during my visit to Mexico only reinforce my belief in the prospect for closer economic and social ties between Florida and Mexico. This is a relationship that will be prosperous and productive - not only for our business communities - but for all our people."

In my view, economic growth in the United States is the number one priority of the new Clinton Administration. That issue is a complex one and not of easy solution--likewise for international economic development and migration. These issues are, in fact, inter-related; but, the solution lies within expanded trade between the sending countries and the United States and not in protectionism. Enactment of the proposed NAFTA would be the single most important long-term remedy to undocumented migration to the United States.

I had the opportunity to serve as Chairman of a three year Congressional study by the Commission for the Study of International Migration and Cooperative Economic Development. This Commission, created by Congress under the 1986 Immigration Reform and Control Act (IRCA), broke with tradition as Congress addressed

the problem of unauthorized immigration in both domestic and international terms, simultaneously targeting the "pull" and the "push" factors that motivate undocumented migration to the United States. That law established the "employer sanctions" that Zoe Baird admits to having violated, but, it also instructed our Commission to, "in consultation with the governments of Mexico and other sending countries in the Western Hemisphere", to examine the conditions in such countries which contribute to unauthorized migration to the United States and to explore "mutually beneficial, reciprocal trade and investment programs to alleviate such conditions".

The Commission's twelve members were appointed by the leadership--Republican as well as Democrat--in 1987. After extensive hearings throughout the Western Hemisphere, we submitted our report with recommendations to President Bush and the Congress in mid-1990.

Our report reached two fundamental conclusions: (1) the search for economic opportunity is the primary motivation for most unauthorized migration to the United States; and, (2) development and availability of new and better jobs at home is the only way to diminish migratory pressures over time.

Our extensive recommendations to the Congress and the President also noted that often, unintended consequences of United States domestic and foreign policy led to undocumented migration to the United States, whether it was our involvement in Central America, our stringent sugar quotas, our desire for "guestworkers"



to harvest our crops when "we asked for workers and people came", and other well-intentioned policies that did not take into consideration the migratory effects that might result. Florida is often at the receiving end of these negative demographic movements which we often have to face without Federal assistance. Our Commission also noted that undocumented immigrants are almost by definition subject to exploitation, becoming a vulnerable underclass, unable to seek the protection of our laws or enjoy the many benefits of our society, always subject to being victimized by employers, landlords and criminals or being deported. Congress recognized their plight in 1986 when it offered legalization to those who had been here since before January 1, 1992.

Thus, solutions to the causes of undocumented migration are necessary not only for domestic economic purposes, but also for humanitarian and national security reasons as well.

While primary responsibility for providing opportunity for their populations rests with the sending countries themselves, it is very much in the interest of the United States to cooperate with and support their efforts. There are various ways in which the United States can contribute directly, and indirectly, to improving the lot of potential migrants in their home countries.

The Commission concluded that the most promising stimulus to future growth in sending countries is expanded trade between them and the industrialized countries--particularly the United States, which is their natural market. We are often in the unenviable position of having to choose between accepting goods and services

from our southern neighbors in ways that affect our domestic industries and labor markets, or of countenancing unauthorized traffic in human beings. While there are other partial remedies, the Commission was convinced that trade is the only option that offers hope to people in the area across a broad spectrum of economic growth. The proposed NAFTA was a specific recommendation of the Commission, as were others that, if implemented, would assist in the protection of our national security interests by contributing to stability in the region and to the furtherance of our commercial interests by improving markets for our exports.

There are no short-term solutions to the problem of undocumented migration. It takes many years--even generations--for sustained growth to achieve the desired effect. NAFTA will help get us there.

By his own words and strong leadership, President Carlos Salinas de Gortari of Mexico has demonstrated that he is committed to the proposition that Mexican citizens would prefer to live and work at home rather than be forced to seek job opportunities abroad. He has stated that he wants to insure that Mexican citizens can walk to jobs in their own backyard, and not have to walk to jobs in foreign lands.

The United States government should expedite the enactment of NAFTA for our own national security and economic interests, for a stronger region economically, and for the protection of workers in all three countries. Implementation of NAFTA will speed the day when domestic work--in all three affected countries--is paid well.

Statement of Richard B. Schroeter  
U.S. Department of Agriculture  
Before the  
House Agriculture Committee  
Orlando, Florida  
July 31, 1993

I am pleased to be here today to discuss the proposed North American Free Trade Agreement (NAFTA) as it relates to agriculture.

As you know, agriculture is an international industry and becoming more so each year. If agriculture is to thrive, it must be oriented to global markets. Agricultural trade is a pathway to opportunity for U.S. producers, and to a productive and efficient global agriculture that has many rewards for all nations.

A central focus of this Administration is to preserve and enhance the income of our Nation's farmers by expanding market opportunities. We think the NAFTA represents tremendous progress on this front. NAFTA is a good, fair, comprehensive agreement that will benefit U.S. farmers, businesses, and consumers.

Mexico represents a major market for U.S. agricultural products. Mexico now ranks as the third largest single-country market for our farm products, after Japan and Canada. Our agricultural exports to Mexico rose from a low of about \$1 billion a year in the mid-1980's to nearly \$4 billion in 1992.

In fact, Mexico has become one of the United States' largest and fastest growing markets for consumer-oriented processed products. These items now account for 33 percent of all U.S. agricultural exports to Mexico compared to 15 percent in 1987.

Over the last six years, total U.S. exports to Mexico have expanded enormously, rising from \$12.4 billion in 1986 to \$40.6 billion in 1992.

The U.S. trade balance with Mexico has shifted from a \$5.7 billion DEFICIT in 1987 to a \$5.4 billion SURPLUS in 1992.

Seventy percent of Mexico's imports now come from the United States, and Mexicans already consume more U.S. goods per person than either the Europeans or the Japanese.

The NAFTA will "lock in" and expand the trade gains achieved since Mexico began to open up its economy in 1986. It will assure that this growth in U.S. exports to Mexico will continue by eliminating trade barriers that still exist.

Additionally, improved economic activity resulting from the agreement will boost income and stimulate demand for greater amounts and a greater diversity of food and feed products in Mexico. And most importantly, the NAFTA would prevent Mexico from returning to policies that limit trade and economic growth.

When NAFTA is fully implemented, by the end of the 15-year transition period, annual U.S. agricultural exports will likely be \$2 billion to \$2.5 billion higher than without NAFTA. 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 areas such as processing and transportation. Agricultural exports to Mexico already account for an estimated 81,000 American jobs. Exports from the new pact will add an estimated 50,000 jobs to the U.S. economy.

I know that those of you here in Florida and states nearby are particularly concerned about the impact of the NAFTA on your producers of horticultural products.

We think that as the provisions of the agreement take effect, NAFTA will actually increase market opportunities for U.S. horticultural commodities by reducing trade barriers and boosting income growth in Mexico. Mexican income growth will increase that country's consumption of fruits and vegetables, thus limiting Mexico's export potential to the United States and expanding the market for U.S. produce in Mexico.

Under NAFTA, tariff reductions for horticultural items are planned to provide a long transition period and additional import safeguards will ease the transition to free trade. The only tariffs that will be eliminated immediately are those on selected horticultural commodities during some least import-sensitive seasons.

Other tariffs will be phased out gradually. The longer phaseout periods apply to tariffs during specific seasons of the year when Mexican imports compete with production in the United States. The agreement also includes quantity-based safeguards to protect U.S. producers of import-sensitive fruits and vegetables from import surges.

Let me point out, as well, that the agreement does not involve any compromise in stringent U.S. standards for food safety or animal or plant health. It does not affect U.S. import quotas for any country other than Mexico. And it requires no changes in U.S. farm programs, nor would it prevent any future changes, so long as our programs remain consistent with U.S. obligations under the GATT.

In closing, I'd like to recap a few of the agreement's major accomplishments involving trade liberalization for agriculture:

--If ratified, the NAFTA will result in the ultimate elimination of all tariffs, quotas, and licenses that act as barriers to agricultural trade between the United States and Mexico.

--It will give the United States, and with some exceptions Canada, preferential access to the Mexican market.

--It will establish strong rules of origin to ensure that the primary benefits of NAFTA go to North American producers.

--It will provide stronger protections for agricultural inventions, patents, trademarks, and technologies.

--And, it will create a fair, quick, and effective process for resolving disputes on NAFTA violations among member governments.

To expand and prosper, U.S. agriculture needs growing export markets and new opportunities. Mexico, in particular, represents an agricultural market of tremendous potential. The NAFTA will protect and expand U.S. access to this market, while bolstering Mexican economic growth and creating the increased demand that results from higher incomes.

When the negotiations on the side agreements are concluded and the NAFTA implementing legislation is ratified by Congress, we will have made significant progress in solidifying trade gains in our hemisphere. We will also have laid a sound foundation for trade expansion in the 21st century with all of its economic advantages for U.S. agriculture.

That concludes my statement. I welcome your questions and comments.

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STATEMENT OF CHARLES RANSON  
FINE, JACOBSON, SCHWARTZ, NASH & BLOCK  
TALLAHASSEE, FLORIDA

ON BEHALF OF FLORIDIANS FOR NAFTA

BEFORE

THE COMMITTEE ON AGRICULTURE  
UNITED STATES HOUSE OF REPRESENTATIVES

SATURDAY, JULY 31, 1993  
ORLANDO, FLORIDA

INTRODUCTION

Mr. Chairman and members of the Committee, I am pleased to be here today to discuss the North American Free Trade Agreement ("NAFTA"). My name is Charles Ranson, and I am an attorney with the firm of Fine, Jacobson, Schwartz, Nash & Block in Tallahassee, Florida, and I serve as co-chair of Floridians for NAFTA, a state-wide coalition of over sixty businesses and organizations that believe that the NAFTA is in the best interests of Florida.

My Personal Experience with Florida Agriculture. Let me begin by welcoming you to my home County, Orange County, Florida. Although I no longer live in Orange County, I grew up here -- just up the road in Apopka (the "foliage capital of the world") -- and my family still lives here.

When I was a boy, Orange County was a sleepy spot, a hub for citrus and other agriculture. However, the groves I knew as a child have now become golf courses and upscale houses. Lake Apopka, which gave its name to my hometown, the former "bass



capital of the world," was surrounded by highly productive muck farms. I worked on those farms and in those groves as a teenager because those were the jobs available to my generation.

Today, Lake Apopka is a dead lake -- dead because of the runoff from high intensity farming. Hopefully, the demise of Lake Apopka is being reversed because of the state's Lake Apopka restoration project. My friends, whose families own those farms, have largely recognized the damage that has been done, and some have given up farming to help restore the Lake.

The point of this introduction is to let you know that I understand the evolution of agriculture in Orange County. I empathize with the farmer and, in fact, am the grandson and the great grandson and the great great grandson of farmers in South Carolina.

But I am here today because I believe change is inevitable; that Florida has changed irretrievably from the Florida of my childhood; and, that the future of our state lies in our adaptation to and our acceptance of a global economy in which Florida is geographically positioned to be a primary beneficiary. There are those in Florida, including Commissioner Crawford whom I have known for many years (dating back to our days of service together in the Attorney General's Office) who will tell you that the NAFTA will have devastating consequences for Florida. I strongly disagree with this assertion and argue

that the NAFTA will not only be good for Florida but will also be good for this Country, for Mexico and for Canada.

The July 20th edition of the Washington Post contained a piece by former Secretary of State Henry Kissinger under the headline "NAFTA: President Clinton's Defining Moment." In this instance I couldn't agree more with Dr. Kissinger's analysis. In fact, I would go a step further and say that in this post-cold war era, how we deal with the globalization of our economy generally and with the North American Free Trade Agreement specifically may well be America's defining moment. Fundamental change has occurred in this world, fundamental change has occurred in this State and in this County, and fundamental change continues to occur.

The NAFTA is our best hope to retool our economy to meet the challenges and opportunities that these changes bring; our best hope to support the emergence of Mexico as a reliable economic and political partner; our best hope to create thousands of jobs in this state by the opening of markets in Mexico for U.S. produced products; and our best hope to send a clear and unequivocal message throughout the hemisphere and beyond that the United States is and will be a reliable partner and the economic leader in the 21st century.

For Florida, the NAFTA presents tremendous opportunities as well as some challenges.

The NAFTA and Florida Agriculture. In particular, the NAFTA will foster significant progress in our agricultural trade with Mexico. Of course, it will not affect our agricultural trade with Canada, which will continue to be governed by the U.S.-Canada Free Trade Agreement.

In Florida, it has been frequently argued that the NAFTA will be an agricultural disaster. The facts, I believe, do not bear out these accusations. While some agricultural sectors may face increased competition, other Florida agricultural sectors will gain tremendous opportunities from increased access to the markets of our neighbor, Mexico.

The potential that the NAFTA holds for Florida agriculture is illustrated by our recent trade with Mexico. Since Mexico has partially opened its markets to U.S. goods in 1987, total Florida agriculture exports to Mexico have increased by over 4,000 percent. Florida crop exports have increased by 27,960 percent to \$9.3 million. Exports of Florida food products have increased by 546 percent to \$19.3 million.

Despite these export gains and Mexico's recent reduction of barriers to U.S. exports, Mexico still maintains many severe impediments to the sale of U.S. agricultural goods. These barriers include high tariffs. The most damaging restrictions, however, are Mexico's import licensing restrictions on U.S. agricultural goods. These import licensing schemes work

essentially as follows. The Mexican government ascertains, first, how large its crop is going to be in a particular product one year and, second, how much domestic demand it will have for that product. Then it licenses the importation of just enough foreign -- frequently U.S. -- agricultural products to make up the shortfall in Mexican production, if there is any. Thus, no matter how much more efficient American farmers are, no matter how much less expensive their produce is, their exports to Mexico are limited to a maximum amount set by the Mexican government. And this amount is set so as to guarantee that there is absolutely no foreign competition for the sale of agricultural goods in Mexico.

It has been suggested by some that in its early years, the NAFTA will reduce the amount of U.S. goods that can be exported. This is a myth. The reality is that the NAFTA sets a minimum amount of U.S. agricultural products that must be licensed for import into Mexico in the first year of the NAFTA, then increases that minimum every year until eventually all import license requirements are phased out completely. However, Mexico always remains free to license the import of more produce than it is required to do so under the NAFTA; so the NAFTA sets a minimum for our agricultural exports, not a maximum. Moreover, the NAFTA completely eliminates these license requirements over time.

The NAFTA will eliminate barriers to the sale in Mexico of agricultural products from Florida. The NAFTA will open up Mexican markets to Florida farmers by, for example, eliminating import licenses on dairy products and potatoes, and eliminating tariffs (e.g. cattle and beef, 15-25 percent) either immediately or over time. These are important agricultural sectors for Florida; for example, livestock accounts for 19.1 percent of Florida's agricultural production, more than oranges (18.8 percent).

Special Protection for Florida Sugar, Orange Juice, and Winter Vegetables. Most of the concern about the NAFTA in the Florida agricultural community has focused on sugar, orange juice, and winter vegetables. These fears are overstated because the NAFTA contains special provisions to protect sensitive Florida agricultural products. Indeed, a number of NAFTA provisions were designed specifically to protect Florida agriculture.

For sugar, increased access to the U.S. market for Mexican sugar is limited by a 15 year transition period and by the requirement that increased access during the transition period be tied to Mexico becoming a net surplus producer of sugar. U.S. sugar is the only one of the thousands of products covered by the NAFTA to receive the benefit of the "net surplus producer" requirement. The U.S. Department of Agriculture projections indicate that Mexico will not become a net surplus

sugar producer in the foreseeable future. Moreover, even if Mexico does export sugar, U.S. producers will not be affected because import quotas for third countries will be reduced commensurately with any increase in Mexican imports.

For orange juice, increased access to the U.S. market by Mexican orange juice is again limited by a 15 year transition period. Moreover, orange juice will have the slowest rate of tariff reduction of any product covered by the NAFTA for the first 10 years. More importantly, the U.S. Department of Agriculture has predicted that orange juice imports from Mexico will increase only slightly, while U.S. exports of fresh oranges to Mexico will actually increase. Any slight increase of imports from Mexico will be offset by higher U.S. orange juice exports to other countries; for example, in Japan, U.S. exports increased 79 percent in the first six months of 1992.

For winter vegetables, special seasonal safeguard measures and 10 to 15 year transition periods have been negotiated to ease the transition to free trade for winter fruits and vegetables. For example, tariffs on cucumbers imported during November, December, March, April, and May will be eliminated over the extra-long 15 year phase-out category. Watermelons, squash, chili peppers, eggplant, and tomatoes received special 10 year long phase-out periods to apply during the months considered most important to U.S. growers in each category.

Moreover, these industries are likely to receive additional protection in the side agreement on import surges that the Clinton Administration is currently negotiating. The side agreement, together with the detailed provisions in the NAFTA itself -- which I have just summarized -- will ensure that Florida agricultural sectors that may face increased competition under the NAFTA will have plenty of opportunity to adjust and prepare.

Overall Impact of the NAFTA on Florida. It is important as we assess the impact of the NAFTA on Florida agriculture that we not forget the many other internationally competitive sectors of the Florida economy that stand to gain from improved access to Mexican markets. Agriculture directly accounts for approximately three percent of the Florida economy. While agriculture may also create demand, and therefore account indirectly, for other aspects of the Florida economy, it is undeniable that most of the effect of the NAFTA on Florida will be unrelated to agriculture. While those effects may be beyond the reach of this Committee, as members of Congress who must consider the NAFTA as a whole, you may be interested in these effects as well.

Free trade with Canada and Mexico under the NAFTA will be a boon for the overall Florida economy. Canada and Mexico are Florida's first- and seventh-largest export markets. Florida's exports to Canada and Mexico were worth \$2.3 billion in 1992, 156

percent greater than the 1987 level of \$900 million. Florida's exports to Mexico are growing especially fast: Merchandise exports to Mexico have increased by over 203 percent since 1987, rising from \$219 million to \$664 million. This was well over twice the 78 percent growth of Florida's exports to the rest of the world.

The NAFTA's reduction of trade barriers will greatly benefit Florida's leading export industries.

- \* For industrial machinery & computers (\$144.4 million in 1992 Florida exports to Mexico), the NAFTA will eliminate tariffs (e.g., 10-20% in computers), assure protection of intellectual property, and open up Mexican government procurement.
- \* For chemicals (\$76.5 million in 1992 Florida exports to Mexico), the NAFTA will eliminate tariffs of 10-20 percent as well as import license requirements.
- \* For electric and electronic equipment (\$74.3 million in 1992 Florida exports to Mexico), the NAFTA will eliminate tariffs of up to 20 percent, open up Mexican government procurement, eliminate nontariff barriers in technical standards, and increase intellectual property protection.
- \* For paper products (\$68.6 million in 1992 Florida exports to Mexico), the NAFTA will eliminate tariffs of 10-20 percent and remove nontariff barriers.
- \* For transportation equipment (\$46.9 million in 1992 Florida exports to Mexico), the NAFTA will eliminate tariffs on U.S.-made auto parts and open up Mexican government procurement.

The NAFTA also contains detailed provisions to eliminate barriers to trade in services, including liberalization of licensing requirements and other restrictions, that will help Florida



banking, insurance and other financial services, telecommunications, and engineering and construction companies win more business in the \$146 billion Mexican services market.

By increasing Florida exports, removal of these Mexican trade barriers will mean more high-paying jobs for Florida. For example, notwithstanding the rapid growth in Florida agricultural exports to Mexico, 96 percent of Florida's exports to Mexico are manufacturing exports, which provide jobs paying 17 percent more on average than the average U.S. wage. This pattern is borne out in specific Florida export industries: for example, the 1991 average hourly wage for production workers in chemicals was \$13.42; in transportation equipment, \$11.11; in publishing, \$10.52; and in industrial machinery & computers, \$10.12. To say the least, these wages compare favorably with the wages of the average farm laborer.

Overall, the NAFTA will "lock in" the more than 21,000 Florida jobs already generated by trade with Mexico, and create new jobs that will offset any job losses at a rate of almost five-to-one. Truly, the NAFTA is a winner not only for Florida agriculture, but for Florida as a whole. It is for this reason that our governor, Lawton Chiles, so enthusiastically supports the NAFTA.

Just as the NAFTA will create jobs in Florida, so will it mean more exports and more, high-paying jobs in the rest of

our nation. As the Congressional Budget Office found in its report released earlier this month, under the NAFTA, "U.S. workers [will benefit] from a net increase in jobs and income." Indeed, the Clinton Administration has projected that 200,000 U.S. jobs will be created by the NAFTA by 1995. Likewise, the bipartisan U.S. International Trade Commission conducted a review of economic studies on the NAFTA earlier this year and concluded that the leading studies "all find that aggregate U.S. employment rises as a result of NAFTA."

The NAFTA and our Nation's Agriculture. Of course, this Committee is concerned about not only Florida, but the agriculture of the entire nation. Our nation's agriculture is an enormous winner in trade with Mexico because it will increase our agricultural exports. Exports are the lifeblood of our nation's agriculture. Nearly one fourth of U.S. agricultural acreage is committed to export.

No country so well exemplifies the international competitiveness of U.S. agriculture as Mexico. The United States supplies 78 percent of agricultural products exports to Mexico from anywhere in the world. Mexico is our fourth largest market for agricultural exports and the fastest growing. U.S. agricultural exports to Mexico have risen by 246 percent from \$1.1 billion in 1986 to \$3.8 billion in 1992 -- 58 percent more than Mexican agricultural exports to the United States (\$2.4

billion). Approximately 81,000 U.S. jobs now depend on farm trade with Mexico.

By eliminating Mexican tariffs and phasing out import licensing requirements and other trade barriers, the NAFTA will allow our farmers to increase exports and create jobs in a variety of crops. For example:

- **BEEF.** According to USDA, U.S. beef exports to Mexico projected to increase to more than 200,000 metric tons after 10-year transition period; in 1991, the U.S. 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 the NAFTA.
- **CORN.** After the NAFTA fully takes effect, U.S. exports are projected to increase to 6 million tons, 60 percent above what could be expected without the NAFTA, according to USDA. The U.S. International Trade Commission (USITC) said corn exports could quadruple. This would provide a 6 cents per bushel boost for corn farmers. U.S. corn producers are now Mexico's largest supplier but they face a quota, tariffs and import licensing system, which has meant wide swings in Mexico's imports. For the period 1989-91, Mexico annually imported an average of 2.9 million tons from the U.S.; in '91, however, imports totaled only 1.3 million tons.
- **COTTON.** The U.S. exported \$107 million in cotton to Mexico in 1992. Although Mexico is a major producer of cotton and competes with the U.S. in foreign markets in some qualities of the fiber, it does not compete in the U.S. market. Moreover, Mexico cannot satisfy its domestic demand for the high quality long staple cotton produced in U.S. This demand is expected to increase, and the U.S. cotton industry is expected, therefore, to gain from free trade with Mexico. The USITC estimates

export growth at about 30 percent over the long term.

- **DAIRY.** After 15-year transition period, U.S. exports of all dairy products are projected to total \$250-300 million, about 15 percent higher than without the 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; the NAFTA will eliminate them immediately.
- **DRY BEANS.** U.S. exports could double current levels after 15-year phaseout of quota and tariffs. Mexico's annual imports of U.S. beans have varied widely: 153,327 tons in 1990 (worth \$102 million) but only 38,000 tons in 1991. By end of transition period, added exports expected to mean a \$15 million gain for dry bean producers.
- **OILSEEDS.** By end of 10-year transition period, U.S. soybean exports to Mexico are projected to rise 20 percent, resulting in a \$400-500 million gain for the soybean industry, according to USDA. Soybean exports are expected to reach 4.5 million tons after 10 years. They have ranged from 877,000 tons in 1985 to 2.2 million tons in 1991. Exports of soybean meal, which recently totalled about 300,000 tons, are expected to reach 700,000 to 725,000 tons, or 12 percent above the level expected without the NAFTA.
- **PORK.** U.S. pork and hog exports to Mexico are projected to double by end of 10-year transition period, resulting in a \$50-100 million gain for the industry, according to USDA. Despite high tariffs, Mexico has been a growing market for U.S. pork and hogs: sales of both to Mexico increased from \$42 million in 1990 to \$90 million in 1991.
- **RICE.** U.S. rice producers are Mexico's largest supplier. Exports to Mexico will likely increase 39 percent, with 10-20 percent attributable to the NAFTA, by end of 10-year transition period, resulting in a \$10-20 million gain. In 1991, the U.S. exported 90,000 tons to Mexico; by end of 10-year transition period exports are expected to reach 200,000 tons.

- **TOBACCO.** The U.S. exported only \$69,000 worth of tobacco to Mexico in 1992, as the Mexican import licensing system effectively blocked imports. Mexico tobacco is a generally poor quality and used as filler. With the elimination of the Mexican import licensing system, U.S. prospects should improve substantially. USDA estimates exports could reach \$100 million by the end of the transition period.
- **WHEAT.** U.S. exports are projected to increase 46 percent, according to USITC, according to USDA, by end of 10-year transition period. After 10 years, exports are expected to reach 1.5 million tons. Mexico's annual imports of U.S. wheat varies widely; in 1991 it imported 740,000 tons. U.S. is already largest supplier but faces import licensing and tariffs. Licenses will be eliminated immediately and tariff will be reduced and phased out over 10 years.

When the improvements that the NAFTA will bring in these and other sectors are combined, it is projected that the reduction and elimination of stiff Mexican trade barriers will increase U.S. agricultural exports by \$2 to \$2½ billion. This increased trade will create about 50,000 new jobs in our sector of the economy. Given these benefits, it is not surprising that over 100 agriculture-related companies and associations have expressed their support for the NAFTA. They know that the NAFTA will mean more agricultural exports and more jobs for U.S. farmers and farm-workers.

Conclusion. The NAFTA is a serious and complex initiative to ensure our nation's economic future. I believe that as you and other members of Congress have an opportunity to focus on the facts about what it will mean for Florida agriculture and Florida as a whole -- as well as for our national

agricultural system and our nation as a whole -- you will come to join the many members of Floridians for NAFTA in concluding that the NAFTA is an essential part of the future of our state and our nation. Thank you.

(Attachments follow:)



Randolph C. Lumb  
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202 457-2398

Charles Ransom  
Co-Chairman  
Floridians for NAFTA  
215 South Monroe Street  
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Tallahassee, FL 32301

July 30, 1993

I would like to request that at the July 31 hearing of the House Agriculture Committee regarding NAFTA that the following statement be made part of the record.

The North American Free Trade Agreement, if implemented, has the potential to greatly enhance the number of exports and opportunities in Mexico. For this reason AT&T strongly supports the ratification of NAFTA and is involved in USA\NAFTA, as well as other pro-NAFTA groups.

Mexico is one of AT&T's more rapidly growing long-distance markets and is expected to reach \$1 billion by the year 2000, as a result of the increased commerce, tourism and business travel that would stem from the implementation of NAFTA. Enhanced telecommunication services, such as electronic mail and information processing, will also develop significant markets from multinational companies as the NAFTA removes the stringent regulatory barriers.

Telmex, Mexico's recently privatized telephone company, will also use our assistance in a program to expand and improve service. AT&T has been designated as the third switch supplier and will receive a major portion of the \$1 billion per year that Telmex has pledged to upgrade their systems. Regardless of the NAFTA, Mexico has committed to a non-discriminatory procurement policy which means Telmex will continue to improve their system using the best equipment for the best price. AT&T is already supplying over half of the fiber-optic cable and equipment to Mexico, and this can only improve with the reduction of tariffs.

The consequences to the U.S. of a defeat of the NAFTA are incalculable. We risk the loss of the critically important Mexican market. More importantly, we risk a severe economic crisis in Mexico that would reverberate throughout the United States and jeopardize job creation and growth in our economy.

Sincerely,

A handwritten signature in cursive script that reads "R.C. Lumb".

R.C. Lumb

**General Mills Restaurants, Inc.**

---

**RICHARD J. WALSH**  
Vice President  
Government & Community Relations

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July 28, 1993

Mr. Charlie Ranson  
Fine, Jacobs, Schwartz, Nash  
215 S. Monroe Street #804  
Tallahassee, FL 32301-1859

Dear Charlie:

General Mills Restaurants has been, and continues to be a strong supporter of international free trade. We believe that the NAFTA is a positive and necessary step to ensure that the United States remains competitive in the global marketplace.

The NAFTA will positively affect General Mills shareholders and employees by opening the Mexican market to General Mills products and restaurant opportunities. We have already observed a similar benefit in conjunction with the USA/Canada agreement ratified in 1988. It allowed us to consolidate production in our most efficient locations, generally USA plants, while sourcing raw materials on both sides of the border.

We are supportive of NAFTA and believe it will strengthen American industry in world markets and positively affect our employees, guests and shareholders.

Sincerely,

Rick Walsh

RJW/mkr



TESTIMONY OF CARL B. LOOP, JR.  
President Florida Farm Bureau Federation  
and Affiliated Companies

MR. CHAIRMAN, I AM CARL B. LOOP, JR., PRESIDENT OF THE FLORIDA FARM BUREAU FEDERATION, AN ORGANIZATION WHICH REPRESENTS ALL FACETS OF AGRICULTURE IN OUR STATE. I ALSO OWN A WHOLESALE NURSERY IN JACKSONVILLE AND HAVE TIMBER INTERESTS. ON BEHALF OF OUR MORE THAN 83,000 MEMBER-FAMILIES, I WISH TO EXPRESS OUR APPRECIATION FOR THE OPPORTUNITY YOUR COMMITTEE HAS AFFORDED US TO EXPLAIN OUR CONCERNS REGARDING THE PROPOSED NORTH AMERICAN FREE TRADE AGREEMENT.

AS YOU KNOW, THE 1991 INTERNATIONAL TRADE COMMISSION STUDY CONCLUDED THAT, UNDER NAFTA, FLORIDA WILL BE THE MOST-NEGATIVELY-IMPACTED STATE WITH REGARD TO AGRICULTURE, AND THAT FRUITS AND VEGETABLES, WHICH MAKE UP THE LARGEST SEGMENT OF OUR STATE'S AGRICULTURAL PRODUCTION, WOULD BE THE MOST-ADVERSELY-IMPACTED COMMODITIES.

EARLY ON, FLORIDA FARM BUREAU AS AN ORGANIZATION MADE A DECISION TO WORK HARD IN THE PROCESS OF DEVELOPING THE AGREEMENT TO ASSURE THAT THE CONCERNS OF THE FLORIDA AGRICULTURE INDUSTRY WOULD BE ADDRESSED. WE LISTED OUR CONCERNS IN PUBLIC STATEMENTS BEFORE THE INTERNATIONAL TRADE COMMITTEE, THE U.S. TRADE REPRESENTATIVE AND STAFF AND THE SECRETARY OF AGRICULTURE AND HIS STAFF, AND OUR CONGRESSIONAL DELEGATION. WE HAD INPUT ON THE PRIVATE SECTOR ADVISORY

COUNCILS INCLUDING THE AGRICULTURE TECHNICAL ADVISORY COMMITTEE OF USDA/USTR DEALING WITH FRUITS AND VEGETABLES. WE TOOK EVERY OPPORTUNITY TO POINT OUT POTENTIAL PITFALLS FOR FLORIDA AGRICULTURE TO EVERYONE INVOLVED IN THE NEGOTIATIONS.

WE WORKED HARD TO INCREASE OUR UNDERSTANDING OF THE POTENTIAL IMPACT OF THE AGREEMENT AND TO ASSURE THAT OUR CONCERNS ARE BASED IN FACT. FARM BUREAU SPONSORED THREE GROWER-TOURS TO DIFFERENT PARTS OF MEXICO TO GATHER FIRST-HAND KNOWLEDGE.

WE WERE DISAPPOINTED THAT MANY OF OUR CONCERNS WERE NOT REFLECTED IN THE AGREEMENT WHEN IT WAS MADE PUBLIC. AFTER STUDYING THE DRAFT AGREEMENT, OUR ORGANIZATION'S VOTING DELEGATES DETERMINED THAT FLORIDA FARM BUREAU COULD NOT SUPPORT THE AGREEMENT IN ITS PRESENT FORM.

THERE HAVE BEEN A NUMBER OF STUDIES DONE, ALL PROJECTING A NEGATIVE IMPACT ON FLORIDA AGRICULTURE. IN FACT, THE MOST RECENT STUDIES INCORPORATING THE MOST UP-TO-DATE DATA PROJECT THE GREATEST NEGATIVE IMPACT.

A NUMBER OF OUR COMMODITIES COMPETE HEAD-TO-HEAD WITH MEXICO. WE AND THE MEXICANS ARE PRODUCING THE SAME COMMODITIES AT THE SAME TIME OF YEAR FOR THE SAME MARKETS. MANY TIMES, WE HAVE SEEN OUR PRICES DROP DRASTICALLY WHEN MEXICO

COMES INTO FULL PRODUCTION. THIS SITUATION IS MADE WORSE WHEN MEXICO DUMPS COMMODITIES ONTO THE U.S. MARKET THROUGH SUCH THINGS AS CONSIGNMENT SALES.

WE ARE TALKING HERE ABOUT HIGHLY PERISHABLE COMMODITIES THAT ARE SOLD IN FRAGILE MARKETS. IT TAKES LITTLE TO DISRUPT THOSE MARKETS AND ONCE THEY ARE DISRUPTED IT IS DIFFICULT IF NOT IMPOSSIBLE FOR PRICES TO RECOVER IN THE COURSE OF A SEASON.

TWO OF OUR FARMERS' HIGHEST INPUT COSTS STEM FROM COMPLIANCE WITH LABOR AND ENVIRONMENTAL REGULATIONS. DURING THE NEGOTIATIONS, WE WERE LED TO BELIEVE THE DISPARITY BETWEEN WHAT OUR FARMERS PAY IN THESE AREAS AND WHAT MEXICAN PRODUCERS PAY WOULD BE ADDRESSED IN SIDE AGREEMENTS. TO DATE, THOSE DISPARITIES HAVE NOT BEEN ADEQUATELY DEALT WITH. WITHOUT CONCESSIONS IN THESE AREAS IT WILL BE DIFFICULT FOR FLORIDA AGRICULTURE TO COMPETE.

AS AN ORGANIZATION, WE SUPPORT THE PRINCIPLE OF FREE TRADE AND REALIZE THE RULES WHICH GOVERN INTERNATIONAL TRADE ARE ANTIQUATED AND NEED TO BE UPDATED IN ORDER TO GIVE US ACCESS TO FOREIGN MARKETS. BUT NAFTA IS NOT REALLY A FREE TRADE AGREEMENT. IT IS A MANAGED AGREEMENT WHICH TREATS DIFFERENT COMMODITIES DIFFERENTLY.

WE ARE ALSO CONCERNED ABOUT HOW THE AGREEMENT WILL BE POLICED AND ENFORCED. WE KNOW THAT MEXICO HAS BEEN A SIGNATORY OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE SINCE 1986, AND IS STILL NOT GATT-LEGAL IN SOME OF ITS TRADE PRACTICES.

MOST OF OUR FARMING OPERATIONS IN FLORIDA ARE CAPITAL-INTENSIVE. GROWERS HAVE MADE INVESTMENTS TRUSTING THAT THE GOVERNMENT WOULD PROTECT THEM FROM UNFAIR FOREIGN COMPETITION. WE MUST NOT BETRAY THAT TRUST.

FLORIDA AGRICULTURE IS CURRENTLY OPERATING UNDER SOME VERY HEAVY PRESSURES, AS IT SEEKS TO RECOVER FROM A HURRICANE IN A MAJOR GROWING AREA, MULTIPLE FREEZES AND WIND DAMAGE. OUR FARMERS FACE EVER-GROWING REGULATORY RESTRAINTS AIMED AT MANAGING GROWTH AND PROTECTING THE ENVIRONMENT. WE NEED PROTECTION FOR OUR MARKETS UNTIL A LEVEL PLAYING FIELD CAN BE ESTABLISHED AND TIMELY DISPUTE SETTLEMENT RESOLUTION PROCEDURES ARE IN PLACE.

I WOULD LIKE TO CONCLUDE BY THANKING OUR FLORIDA CONGRESSIONAL DELEGATION, ESPECIALLY REPRESENTATIVES TOM LEWIS AND CHARLES CANADY AND CONGRESSWOMAN KAREN THURMAN, WHO HAVE WORKED HARD TO UNDERSTAND AND SUPPORT FLORIDA AGRICULTURE'S CONCERNS.

**Statement of**  
**F.S. Duda**  
**President**  
**Florida Fruit & Vegetable Association**

Mr. Chairman, members of the committee, good morning and welcome to Florida. My name is Ferdinand Duda. I'm president of the Florida Fruit & Vegetable Association -- an organization that represents growers of Florida's vegetables, citrus, tropical fruit, strawberries and sugar cane. I'm also president of A. Duda & Sons, my own family's farming operation that grows and markets many of the products I just mentioned in Florida, Texas, and California. At peak season, my family and I are responsible for the livelihoods of 4,500 people who work with us growing, harvesting, packing and shipping the fruits and vegetables we grow.

We greatly appreciate you and the other members of the committee taking time from your busy schedules to come to Florida today and hear the very real concerns about the North American Free Trade Agreement from people in our industry. FFVA also appreciates the opportunity to once again offer our views to the committee. In addition to my remarks here today, FFVA also has a written statement that I ask be included in the record of this hearing.

The NAFTA is a crucial issue for Florida agriculture. I think you'll agree, there have been very few industries around this country that have worked as hard as Florida agriculture on this agreement. There are very few industries in this country -- especially in agriculture -- who compete with Mexico head-to-head in the production of a number of commodities. Numerous studies have been conducted in recent years that clearly show that the Florida fruit and vegetable industry will suffer greatly as a result of NAFTA. The most recent report -- by the highly-respected Council for Agricultural Science and Technology -- again showed that Florida will be affected the most.

For the past two years, Florida agriculture has attempted to work within the system to address its concerns with the agreement. Early-on, we developed a set of recommended provisions for the agreement that were designed to minimize the potential damage to Florida's farms, farmworkers, and rural communities. Even when the agreement was finalized last year without most of what we asked for, we sought provisions in the side agreement negotiations to deal with our concerns. Throughout the entire negotiating process, we've tried our best to play a constructive role.

But now we're very near the end of the side agreement negotiations and it doesn't appear that they'll contain anything to help our industry. In fact, there's a very real possibility that the side agreements on labor and the environment could be used against us. We're still hopeful that the Administration will negotiate a price-based safeguard mechanism for perishable crops. This has always been an important issue for us. The volume-based mechanism in the agreement, in our opinion, will not react quickly enough to our products' highly volatile markets.

Mr. Chairman, we have consistently supported the concept of a North American Free Trade Agreement. Our concern has always been that it be done right -- and in a way that Florida agriculture can compete on a level playing field. Unfortunately, the agreement as it's currently written doesn't accomplish this. And, in our opinion, no agreement is better than a bad agreement.

Today, you'll hear directly from a number of people in our industry who are worried about their future. Their concerns are real, and they're from the heart. From the beginning, you have been extremely helpful in making sure those who were negotiating this agreement understood Florida's position. Our own Congressional delegation has been nothing short of outstanding in advancing our issues. We greatly appreciate all of your efforts, and ask your continued help in addressing Florida agriculture's concerns.

Again, on behalf of FFVA, I thank you and the committee for coming to Florida to hear our views.

(Attachment follows:)

**TESTIMONY**  
**FLORIDA FRUIT & VEGETABLE ASSOCIATION**  
**HOUSE AGRICULTURE COMMITTEE**  
**ORLANDO, FLORIDA**  
**JULY 31, 1993**

Summary of Position

The Florida Fruit & Vegetable Association (FFVA or Association) does not support the North American Free Trade Agreement (NAFTA) as presently written. Fruit and vegetable growers, their workers and communities will be seriously harmed by it. Moreover, the side-agreements as have been described to us recently by USTR officials will not adequately address the issues of importance to our growers.

During the course of negotiations, FFVA met with leaders in this and the prior Administration and with leaders in Congress to get an agreement that would permit its growers to continue farming into the next century. Initially, FFVA requested (1) an exemption from tariff reductions or, at a minimum a lengthy phase-out of tariffs for sensitive crops (20 years); (2) harmonization of environmental and labor standards between the growers in Mexico and in the U.S.; and, (3) a price and volume-based safeguard mechanism to protect growers against serious import surges during the transition period.



The Agreement contains no exemption for fruits and vegetables; nor does it contain a 20-year phase-out period. It does address environmental and labor standards in the side-agreements but there is no provision for harmonization of standards. Lastly, the Agreement contains a safeguard provision for only a few commodities, but this provision contains only a quantity-based snap-back mechanism which is not adequate for fruits and vegetables.

As written and with what we know of the side agreements, this NAFTA will harm our growers and, until it is changed, we must oppose it.

### Background

Florida agriculture is a \$6 billion industry that provides wholesome, affordable food for consumers in the U.S. and around the world. More than 240 commodities 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 agriculture industry in Florida provides jobs for more than 250,000 people during peak production periods, and contributes strongly to the state's economy. It is the second ranked industry in the state.

In February 1991, the U.S. International Trade Commission (USITC) found that producers and processors of winter fruits and vegetables were expected to experience losses in production and employment as a result of this Agreement. In April of 1991,

Florida agriculture requested an exemption of import-sensitive, winter-produced fruits and vegetables, and citrus and their products from the NAFTA until such time as several serious concerns of the industry were meaningfully addressed and satisfied. A number of specific recommendations were made to mitigate the harm to Florida agriculture.

On August 12, 1992, President Bush signed the NAFTA concluding 14 months of negotiations with Mexico and Canada. Very few of the industry's recommendations were in the Agreement; in addition, some provisions which we were told were in the Agreement were deleted in the eleventh hour of negotiations. For example, we were assured the winter fruits and vegetables would be placed in the most sensitive category (C+). They were not. Since that time, FFVA, Florida's Agriculture Commissioner, and many other organizations have commented on the Agreement's failure to adequately address the concerns of the industry.

On December 17, 1992, President Bush signed the Agreement amid considerable criticism over the potentially great impact the Agreement would have on jobs, the environment, and selected industries, including agriculture. Following his inauguration, President Clinton proposed side agreements to the NAFTA to be negotiated in the area of the environment, labor and import surges.

In a letter dated March 11, 1993, 23 members of the Florida Congressional delegation wrote to President Clinton advocating the inclusion of 6 specific recommendations in the side agreements to assure that Florida agriculture does not disproportionately bear the

burden of NAFTA. In a letter dated July 20, 1993, Ambassador Kantor replied to this letter noting that Florida will benefit from the NAFTA but failed to address even one of the recommendations made.

It is clear to us that negotiations to date have failed to meaningfully address Florida agriculture's concerns.

#### Injury to Florida Agriculture

Mexico is the largest foreign supplier of horticultural products to the United States. The U.S. International Trade Commission found in February 1991 that the elimination of tariffs (and non-tariff barriers) in a free trade agreement would generate "a significant increase in U.S. imports [of horticultural products]. . . ." Summary of USITC Inv. No. 332-297, "The Likely Impact on the United States of a Free Trade Agreement with Mexico," p. xi. The Report continues saying that "Mexican producers are able to supply the U.S. market with many of the same products grown or processed in the United States at much lower costs. This is particularly true for citrus crops and winter vegetables that are manually harvested. U.S. growers of these products are expected to experience losses in production, particularly growers in Florida . . . who compete directly with products during the same growing seasons in Mexico." Id. at xi-xii. Florida's fruit and vegetable growers grow and market their products during the winter months in direct competition with Mexico. They are not complementary in any normal meaning of that word. Despite

arguments to the contrary, Mexico's imports of fruits and vegetables do not supplement Florida's production. Florida could, fairly easily, expand its production of fruits and vegetables if Mexico wasn't in the U.S. market.

It is without question that Florida agriculture will be harmed by this NAFTA. The only question is how great the harm will be. The real answer is that no one really knows for sure. For us in the affected industry, we know the harm will be great.

Several economists predict that 20% of the Florida Tomato Industry (Approximately \$125,000,000) will be lost if the NAFTA went immediately and fully into effect and that 8,700 tomato workers would lose their jobs. Florida's Agriculture Commissioner has estimated the job loss for all of Florida agriculture to be 50,000+ jobs. Others have predicted greater harm. We believe the impact will fall hardest on the small marginal growers. For some of the larger growers, the free trade agreement may be the "last straw" and they will take their operations to Mexico or at least offshore so that they can compete with Mexico without the heavy burden of U.S. governmental regulations.

The losses referred to in the preceding paragraph are only for one commodity in Florida for one year, and reflect only the farmgate value. The real impact will be much greater. The entire farming community will be adversely affected. We are already hearing reports of loans not being approved because of the impact of the NAFTA. The personal toll this Agreement will take can only be likened to that experienced by the farm community of Homestead,

Florida, after hurricane Andrew blew through their community last August. It's simply devastating.

We believe all of this will happen if the agreement is adopted as proposed. The side agreements offer no solace. We do not think they will help us at all.

There appears to be a concerted effort to downplay the importance of fruits and vegetables in general and the impact of this Agreement on them. However, as you know, Mr. Chairman, fruits and vegetables represent 25% of the consumer's food bill, and according to the Surgeon General and many others, they are highly recommended for a healthy diet. Fruits and vegetables are grown in every state, but they are concentrated in California, Florida and Texas. They are so important that California and Florida rank number 1 and 2 among all states in cash receipts from growing crops. In Florida alone they represent approximately one million acres of economic activity. We do not know how many people are involved but estimate 500,000, considering field workers, truck drivers, packing house workers, mechanics, salespeople and others. These people will be harmed by this Agreement and the businesses and communities they work for and in.

At issue is the competitiveness of the American farmer operating in an industrialized country vis-a-vis the Mexican farmer operating in an economy only a fraction of ours. Our costs to operate in our system are great, as much as thirty percent of all our costs; the Mexican growers do not pay such costs. The

difference in payments is a subsidy to the Mexican growers which is not accounted for in this Agreement.

We are not suggesting there should not be an agreement with Mexico; we are suggesting that this Agreement is not acceptable to us. Indeed, the fact that there are millions of people who violate the legal relationships between Mexico and the United States clearly indicates that the people of our two countries want and need a new arrangement. However, such an arrangement should be acceptable to the people of both countries, not just the selected businesses and industries. It should protect the U.S. consumers, U.S. workers, and the communities in which they live. It should do the same for the people in Mexico. The proposed agreement does not accomplish these simple but fundamental goals.

#### Side Agreements

Mr. Chairman, we are not certain what's in the side agreements but, from what we've been told, we do not think they will assist Florida's fruit and vegetable growers. For example, the harmonization of environmental and labor standards between the United States and Mexico apparently will not happen during the phase-in period of the Agreement. In addition, the import surge agreement appears only to provide an "early-warning" system with no real help on damaging surges.

We are particularly concerned that the environmental and labor side agreements will not achieve their desired goals of ensuring each party enforces its own statutes and regulations. This will

give Mexican growers a tremendous, unfair, competitive advantage over our growers. The proposal, as has been told to us, will allow Mexico to maintain its present level of non-enforcement of environmental, labor, sanitary, phyto-sanitary, food safety, and other laws. The heart of the proposal is to determine whether a party shows a persistent pattern of non-enforcement of its laws which is unjustifiable. None of these terms is defined. We submit to you that it will be impossible to prove such a claim. Moreover, and more importantly, these provisions appear intended to deal with actions that happen only after enactment of this Agreement. We submit to you that at this time Mexico does not enforce its laws and, under any ordinary reading of such language, would be in violation of such provisions. However, this apparently will not be addressed and, by not addressing it, our growers will be disadvantaged because they must compete with growers in Mexico who are subject to laws which are not enforced. Failure to achieve harmonization in this Agreement locks in an artificial competitive advantage for our competitors in Mexico. This is not fair; nor is it right or even sound public policy; but, it is correctable. Strong side agreements must be negotiated to provide fair competition for our growers in our own market.

#### Safeguard Provision

Mr. Chairman, we do appreciate your and your staffs' activity in the NAFTA negotiations. We recall when you provided a most sensitive list of fruits and vegetables early in the negotiations

to the USTR, which included most of our fruits and vegetables. We appreciated your holding hearings to get updated information on the progress of the negotiations. And, we applauded your ideas to resolve a number of difficult issues. For example, we thought your idea of a binational dispute settlement panel to deal with health and sanitary practices, and to deal with disputes over commercial codes and other trade problems was most appropriate. And, we recall your letter of February 25, 1992, listing a number of your and our concerns to Ambassador Hills was right on point. Unfortunately, those issues have yet to be meaningfully addressed. But mostly, we appreciated your recommendation to the last Administration to look into getting a price-based safeguard mechanism to respond to surges in imports of fruits and vegetables. Unfortunately, it, too, has not been adopted in the agreement.

We need a price-based snap-back provision. Our concern is when our market price is depressed because of a surge in imports. If the price stays the same or rises, we are not concerned with increased quantities. We believe such a price-based mechanism can be implemented if the will to do so is there. We urge you and the Committee to provide the will to get this done.

#### U.S. Fruit and Vegetable Growers

As with many issues, the issues surrounding this Agreement are complex and difficult. Winners and losers have been identified and issues of agreement and disagreement also have been pointed out. Fruit and vegetable growers across the country fall on different



sides on this Agreement. A number of commodity groups believe they will benefit by this Agreement and they are working to get it passed. On the other hand, there are many fruit and vegetable groups and others in agriculture who oppose this Agreement because they believe it will harm them. It is more than ironic and interesting that there are more and more groups speaking up and opposing this Agreement. In fact, groups like the Wheat Growers are changing their positions once they analyze how this Agreement will work or not work for them.

In addition, we believe the provisions in this Agreement and in the side agreements will not mitigate the harm to fruit and vegetable producers and their communities. In addition, we firmly believe this Agreement locks in an unfair competitive advantage and that this unfair advantage has neither been recognized nor addressed. In addition, we believe Congress is making a significant food policy decision in considering this Agreement. We don't believe we are overstating the case and we think the precedent this sets is extremely dangerous for the country and should not be taken lightly and without further debate.

#### Process

Because neither the implementing legislation nor the side agreements on labor, the environment, and import surges have yet been presented to Congress or to the public for review and consideration, and because the specific language in these agreements and legislation are so important to us and many others,

we strongly urge you to continue your practice of holding hearings to allow all those impacted or interested the opportunity to comment to Congress.

Conclusion

Mr. Chairman, FFVA continues to have significant concerns about this Agreement and the proposed side agreements. We believe this Agreement will substantially harm Florida agriculture, and fruit and vegetable growers in particular, unless strong side agreements are negotiated that harmonize labor and environmental standards, and provide adequate safeguard measures for all perishable commodities. Until this is done, we must oppose this Agreement and urge our Congressional delegation and the rest of Congress to oppose it, at least until we are treated fairly.

We thank you for the opportunity to present our views. We appreciate your coming to Florida to hear our views and the views of others affected by this Agreement; and, we look forward to working with you and your staff to make this Agreement work for us.

WAS-15604

TESTIMONY BEFORE THE HOUSE AGRICULTURE COMMITTEE ON THE  
NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

ORLANDO, FLORIDA  
JULY 31, 1993

Good morning and thank you for the opportunity to speak with you today. My name is Ellen Wine and I am the Assistant General Manager of Administration at South Bay Growers. We grow 9,000 acres of lettuce, leaf and celery during the winter months in South Florida. South Bay employs about 1,400 people and has an annual payroll of between \$15 and \$20 million. The specter of the North American Free Trade Agreement as it now stands is frightening to everyone of us.

If all things were equal, we would simply take this in stride as competition. Competition serves to sharpen skills and forces companies to become more efficient in order to survive. But, NAFTA does not allow all things to be equal.

Every day we make sure we abide by and operate within wage and hour laws, housing laws, laws governing chemical use, worker protection standards, workers' compensation laws, safety standards and volumes more. We don't mind obeying these laws and design our production around them. We incorporate new laws into our program just about every day.

But, how can the federal government insure me, as a mother, that the foreign produce they are welcoming into the markets here is safe? Last spring, 17 acres of endive and escarole grown on one of our farms was accidentally sprayed with Phosdrin. The law said we could harvest it if there was no trace of the misapplied chemical. We spent the \$3,000 per test, for several tests, to determine if we could harvest and safely sell the 13,000 cartons of leaf. In the end, we decided it was too close to call and wouldn't risk the public's safety. Between the growing costs disked under, and the market price of the potential harvest, we lost more than \$250,000. Can the American government assure me that the foreign growers will be as conscientious with our food supply?

The song being sung today to soothe us on the equitable wage issue is that if you factor in productivity, foreign labor is not a cheap as it sounds. The numbers being bandied about have foreign labor at about \$3 per day. Our least productive workers are guaranteed \$4.25 per hour. Many of our workers, because they are so productive, earn \$8 and \$9 an hour. Does the productivity issue level this particular playing field. I doubt it.

I may not know everyone of our employees by name, but I have everyone on my mind. Should NAFTA pass as it is written, what will they do when the vegetable industry in Florida is gone? Some talk of retraining these folks. To do what? The people that would be displaced are have limited education, many speak little English, many are women or older than 50. These are the people in our society that are the least mobile and would be the most difficult to retrain.

If you haven't already heard from Irene Anthony, you should have. Mrs. Anthony has worked for South Bay probably longer than I've been alive. Yesterday she asked what on earth she would be retrained to do. Then she asked if she was successful in being retrained, who would hire a person her age. Mrs. Anthony has raised a fine family. Her son, Clarence, is the mayor of South Bay and a very influential public figure. Now Mrs. Anthony, instead of being able to look forward to her golden years, is wondering what is going to happen to her. She's lucky in that she has family that is more than likely able to care for her after she decides to retire. I'm a worrier, and more often than not I spend wee hours wondering what my company can do for the people who have worked so hard and will be the ones most devastated by NAFTA.

By the way, for those of you who believe that working in vegetable fields is unskilled labor, I invite you to come work for a day. Not only does it require stamina, but you must know the crop in which you are working so not to harvest too early or late or harvest diseased or damaged plants. You must be part biologist, part chemist and part lawyer to wade through the regulations governing growing a crop. And you must love it to get up every morning at 5 a.m., rain or shine. It is not just a job. It is a way of life.

We all understand the importance of having neighbors with strong economies. But, why don't we rethink NAFTA, fill in some of those "details that will be worked out later" and level the playing field. Can the economies of Florida and America really afford NAFTA as it is written? Congress has the tough job of evaluating the issue and voting it in or out without amendment. But, it isn't just an economic issue. Please make certain America and her people are considered.

## Statement on the North American Free Trade Agreement

July 31, 1993

Jack Neitzke

C. J. Neitzke, Inc.

Mr. Chairman, my name is Jack Neitzke. I am a small citrus grower from south Florida, and a member of Gulf Citrus Growers Association. Gulf Citrus commends you for holding this important hearing to receive our views on NAFTA's impact on our business.

I have weathered drought, floods, lightning, freezes, fungi, pestilence, etc; in fact anything the good Lord has thrown at me.

I've absorbed government rules, regulation, loss of chemical tools, paperwork, liability, etc. at great cost but I've still survived. It hasn't been many years ago that production costs were \$250-\$300 per acre. Now they're running \$1100-\$1200/acre. A large portion of that increase is either direct or indirect cost of increased Government and Government regulations.

I've never faced a force that scared me but this NAFTA as now written has me filled with fear and trepidation.

This NAFTA is so ominous to us that it is being discussed in bank board rooms, by suppliers, by local government departments, in budgeting sessions, social gatherings. It's on everyone's mind.

All of a sudden long term leaders have pulled in their horns by reducing loan limits on citrus groves and have stopped making loans

on vegetable operations. Local banks have retracted from Agricultural Lending Activities (which has been helped along by FDIC & OTS).

The real estate market is dead. Everyone knows you're going to do NAFTA. The present draft as proposed sells us, the entire South Florida Agriculture Industry, down the river.

We ask for what purpose? Why? What have we done to incur the wrath of Washington?

This isn't an issue that affect just me or my fellow citrus growers. We're talking about an issue so big and encompassing that all people serving or supplying South Florida Agriculture are losers. Many communities and local government are tied directly to the fortunes of agriculture.

I, like many others in south Florida have expanded recently to replace the lost acres in north Florida caused by the freezes of the "80's". In so doing we've accumulated considerable debt and still are accumulating debt to pay for the land improvements. I invested my life's savings with the knowledge of the market as we know it and the general economic conditions and the future outlook that prevailed at the time. Along comes NAFTA. Mexico will compete directly with us in the same marketing windows.

As basis producers we can't pass additional costs on to the consumer. Everyone including local, state and federal Govt takes their cuts and we get what's left. If we can't pay our bills everyone loses. The biggest loser is jobs.

I'm a small grower, an insignificant part of the citrus industry yet I pump over \$1,500,000 into the economy. In 3 to 4 years, if I'm allowed to survive, that number will be closer to \$2,500,000 at today's values. These costs include all of the goods and services of production, harvesting, hauling, packing, processing and selling. These numbers do not include interest on debt. Multiply the effect of my 600 acres over the 791,000 acres in the citrus industry and you begin to understand the impact. All of these dollars involve many jobs.

Give me and others like me a level playing field. We're not afraid of good fair competition. We're not asking you to scuttle NAFTA (while that is my choice) but we don't want to be that sacrificial lamb.

Our requests have been simple. As simple as "allow me to survive".

- 1) Don't allow non-NAFTA countries' commodities to flow thru unimpeded. Also Mexico is a large user of citrus. What

keeps them from exporting their entire crop for export dollars and import their needs at cheaper prices!

We pay assessments within our industry to advertise our product. That franchise belongs to the Florida citrus growers. Not Mexico! Not US Government! It belongs to me and all like me! If they want part of the market make them pay for their share of the advertising.

- 2) Provide safeguards and snapbacks based upon price. Volume will not work. We had a taste of that this year and we couldn't pay our expenses. Our commodity is extremely price sensitive. A small increase in supply at the wrong time can have and will have devastating effects on price.
  
- 3) Give us that 15-20 year phase in period to reasonably amortise our commitment and investment. And don't give the store away on the front end as now written. Our need is now. If you can't negotiate a 15 to 20 year drop dead at least give us 5 years and then spread the Mexico benefits over the remaining 10 to 15 years. Yes, Mexico benefits. There is no benefit to the Florida citrus growers! That 5 years will give Mexico a chance to get their industry in order to begin complying with the food safety, environmental and labor concerns and issues.



If you want Mexico to have an incentive to speed up their programs, levy a tax that is equivalent to the cost differential of Labor, Workmen's Compensation, State & Federal Unemployment Tax, Social Security, Medicare, health plans, records retention, liability, EPA's regulation of record keeping, worker's safety & training, safety equipment, portable bathrooms, underground trunk removal, water & air quality, endangered species, etc., etc. Levy that tax per box or per gallon, based upon that differential. As Mexico improves their conditions and narrows the margin of costs reduce the tax accordingly.

As an American Citizen I don't want to be dependent upon foreign countries for my food supply. How do I know about my food safety? What about the jobs?

We need those side agreements to survive. My family farming operation needs those side agreements to survive. My employees, my town and my local government needs those side agreements to survive.

Thank you for this opportunity to speak with you!!

BEFORE THE  
U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE

STATEMENT OF PHILLIP L. HERNDON  
ALCOMA PACKING COMPANY

and  
BOBBY F. MCKOWN

on behalf of

FLORIDA CITRUS MUTUAL

CONCERNING THE  
NORTH AMERICAN FREE TRADE AGREEMENT

Supported by:

California Citrus Mutual  
Citrus Grower Associates  
Florida Citrus Packers  
Florida Citrus Processors Association  
Florida Department of Agriculture and Consumer Services  
Florida Department of Citrus  
Florida Farm Bureau Federation  
Indian River Citrus League

FLORIDA CITRUS MUTUAL  
302 S. Massachusetts Ave.  
Lakeland, Florida

Bobby F. McKown  
Executive Vice President

BARNES, RICHARDSON & COLBURN  
1819 H Street, NW  
Washington, DC 20006

James H. Lundquist  
Matthew T. McGrath

July 31, 1993

Mr. Chairman and members of the Committee, I am Phillip L. Herndon, Vice President of Alcoma Packing Company in Lake Wales, Florida, and Chairman of the Governmental Affairs Committee of Florida Citrus Mutual, Lakeland, Florida. Also appearing today is Bobby F. McKown, Executive Vice President, Florida Citrus Mutual. For many years, we have grown oranges for processing, and we operate a juice processing plant. I am appearing today on behalf of Florida Citrus Mutual, California Citrus Mutual, Citrus Grower Associates, the Florida Citrus Packers, the Florida Citrus Processors Association, the Florida Department of Agriculture and Consumer Services, the Florida Department of Citrus, the Florida Farm Bureau Federation, and the Indian River Citrus League.

We appreciate the Committee's concern in coming to Florida today to hear first-hand, from our industry and others in Florida, about the serious problems we see with the NAFTA, and how critical it is for any implementation of that Agreement to take into account the harm and dislocation it will pose to the citrus industry. We hope the Committee will continue to assert the leadership it has undertaken throughout the debate on NAFTA to see that the citrus industry and others are not sacrificed on the altar of free trade.

Our industry is confronted with the serious challenge of adjusting to new conditions of world trade under the NAFTA. World supplies are at all-time highs; cash prices for fruit in the spring of 1993 were at history-making low levels. Pressures from new citrus suppliers abroad will increase while regulatory requirements at home will continue to place us at a competitive disadvantage. Mexico has not stood idly by. While Brazil, the world's largest

producer, is projected to market a record crop in 1993-94, Mexican output increased by 50% in 1993. Mexican citrus acreage is now equal to that of Florida, and the percentage of non-bearing acreage which will come into production in the near future is extremely high. This present glut of oranges and the world oversupply of juice has depressed prices in world markets. Many of these suppliers exist today only because of past government support programs which were designed to maximize U.S. dollar export earnings for debt service. Once a citrus grove is established and producing, it is too late to offset the impact of subsidies with countervailing duties or other measures. The supply--and its depressive impact on world prices--will continue throughout the productive life of the grove.

Further complicating the NAFTA picture is the inequality between Florida and Mexico grower costs attributable to regulatory requirements. Lower Mexican costs cannot be attributed to comparative labor cost savings or better growing conditions. Environmental, labor, and safety regulations account for 20-30% of Florida growers' production costs. Since total Mexican growing costs are only 49% of Florida's costs, you can see how much of their so-called "advantage" is artificially created. We do not suggest that these U.S. regulatory restrictions should be removed, but in the past, the tariff on citrus imports served to offset these artificial differences. Without it, we will be fighting with one arm tied behind our backs.

The International Trade Commission recently reported on the probable effects of the Agreement on the U.S. economy, and projected that citrus juice imports will increase by 17% in the

long term, and that U.S. citrus production and employment will decline almost entirely in Florida. With this background, it is imperative that we strive to keep NAFTA from undermining the industry. Florida Citrus Mutual and others have stated our basic position on the elements which should be considered in the implementation of any Agreement finally reached among the NAFTA signatories. We have always supported the total exclusion of citrus from the coverage of the Agreement, and also urged in the alternative that the phase-in period for citrus tariff reductions be extended from the current 15-year level to 20 years with a drop dead tariff elimination only at the end of the period. Maintenance of the U.S. tariff for 20 years is essential to amortization of the industry's recent grove investments, which were designed to increase our competitiveness by moving many Florida groves to areas which are not as susceptible to periodic freeze damage. We have not retreated from this position.

In the current trade talks, Mexican and U.S. negotiators have agreed to a 50% reduction in the FCOJ tariffs for a quota level in the first year of the Agreement, and further reductions in the tariff over 15 years, during which the quota and over-quota tariff reductions will intersect and decline to zero. In light of these drastic tariff reductions, the following steps must be undertaken to prevent rapid deterioration of our industry:

(1) There should be a tariff safeguard mechanism for the types of production surges which result in precipitous and destructive price declines. Such a safeguard has always been built into the citrus juice tariff through application of specific rather than ad valorem rates of duty. Without that mechanism, there must be a side agreement which provides for a tariff rate snapback to MFN rates when the Mexican import prices (as reflected on the commodity futures market) fall below the breakeven price for Florida growers. This safeguard

mechanism must be an alternative or a supplement to the safeguards incorporated in Article 8 of the Agreement, which address only volume surges from NAFTA countries, and fail to account for price effects. It should also survive the phase-in period for tariff reductions;

(2) All Mexican labor and environmental standards applicable to citrus production should be harmonized to U.S. standards and negotiations to assure this treatment should be authorized in parallel legislation. Tariff reductions should not commence until these standards are harmonized.

(3) The U.S. Department of Agriculture and the U.S. Customs Service must be instructed under the implementing legislation to strictly enforce all phytosanitary standards to ensure that only wholesome citrus products enter the United States;

(4) An accurate, timely statistics-gathering mechanism must be implemented by the U.S. Customs Service and the U.S. Department of Agriculture, Foreign Agricultural Service for the purpose of tracking Mexican production, processing, and packing of citrus; shipments of fresh and processed citrus to the United States; and imports of fresh and processed citrus into Mexico from the United States and all third countries. This is critical in preventing transshipments of non-Mexican citrus through Mexico to take advantage of the NAFTA treatment, and creating a conduit for citrus products into the United States market;

These modest proposals for improvement will not, however, ease the potentially devastating impact of the Agreement on our industry, since they represent the minimum effort necessary to prevent the NAFTA from further battering an already severely challenged industry.

In all, there are about 14,000 citrus growers in Florida alone, and about 22,000 growers nationwide. Total capital investment in citrus groves in Florida alone is estimated at approximately \$7 billion. In addition to thousands of growers, a large United States workforce will also be adversely affected if citrus is included in the proposed arrangement. Approximately a quarter of a million people are directly employed in the citrus industry throughout the United States, and many more are indirectly

employed in related industries.

In Florida, 70,000 persons are directly employed in production of citrus products and another 75,000 persons are indirectly employed so that the livelihood of some 145,000 persons in Florida alone is critically at risk. (This estimate does not include employment beyond the FOB plant level, which may add about 40,000 more affected workers.) For many of these, there are few, if any employment alternatives.

#### I. Safeguard Mechanism

Implementation of NAFTA must include a safeguard mechanism which offsets the impact of elimination of the present duty regime for imported citrus juice--principally, FCOJ and ready-to-serve (single strength) orange juice.

The mechanism for the duty-elimination in the Agreement is complex. For some products, the duties will be eliminated the first year that the Agreement is in force. For other products, the duty elimination will be phased in under a variety of different schedules.

For juice, the confusion is compounded by the fact that the duty reductions on the under- and over-quota entries are to intersect after a few years so that the amount of the duty cut varies by product and duty-status. After the intersection, the rates for the under- and over-quota entries are held constant for a specified period and then reduced linearly to zero.

The incongruity of the proposed elimination schedule may cause even greater adjustment difficulties than originally anticipated. For fresh oranges and grapefruit, some product can be held for the

beginning of the periods (seasons) in which the duty-free provisions apply (from the first year). The quota for concentrated orange juice from Mexico provides for a first-year, 50% duty reduction on the bulk of the Mexican imports (the in-quota entries) until the in-quota rate intersects with the over-quota rate, which is then scheduled for a reduction of 15% per year over a six-year period.

Under these provisions it is very difficult, if not impossible, for a producer to gauge the extent of duty offset that can be anticipated from the lower-cost imports from Mexico. Since, as previously stated, the proposed code has the effect of immediately removing, or significantly reducing, one of the most important features of citrus import duties insofar as they relate to the operations of a domestic producer--the incidence of specific rates of duty.

The existing duties are specific rates rather than ad valorem rates. A critically important characteristic of this form of duty is that they afford producers protection during periods of large foreign supplies and low prices. When the prices tend to be high because of short crops, the incidence of the specific duty falls--and reduces their impact on the volume of the imports and on domestic prices. During periods of high yields and excess foreign supplies abroad, the reverse is true and this becomes the crucial element in the viability of the domestic industry. The phase-in schedules affect this feature of the import duties immediately.

The importance of the invasion of this feature of the existing duty structure is seen from the fact that citrus crops, whether produced at home or abroad, are singularly subject to yield



variations from year to year because of weather, normal "off crop years," disease, or other factors. The proposed multi-phase schedule in the agreement for citrus makes no provision for the import increases that periodically occur as the result of production surges which result in the "off-load" of this excess product in the United States, periodically causing severe price depression and price suppression. The increases in imports of this nature are quite different than the "surges" that sometimes appear in the case of storable (i.e., non-perishable) manufactured products.

Under the proposed schedule, the automatic counter-effects of the specific duties in the wake of natural phenomena will either be eliminated immediately, or will be significantly reduced progressively and then eliminated, to the very real disadvantage of U.S. producers. The safeguard mechanism must account for these natural variations, and compensate for the progressive elimination of the corrective counter-balancing effect that the specific rate of duty now permits.

If the proposed schedule is adopted, domestic prices and revenues from citrus will progressively suffer from a rising volume of imports from Mexico--absolute, and relative to the market. At the same time, producers lose the automatic counter-effects of a specific duty well-designed to cope with the production and trade shifts endemic to citrus.

As indicated below, the elasticity of supplies in Mexico, both short term and long term, is very high. At the same time, the elasticity of the mature demand for citrus and citrus products in the United States tends to be low, so that increases in supplies

readily affect market prices. Removing these duties, or modifying them in a fashion that is commercially unreasonable, will undoubtedly cause severe distress.

In the recent past, the Florida citrus industry has invested huge amounts of money in new groves and trees in connection with a historic migration to freeze-free areas in the southern parts of the state. Over \$3 billion was newly invested in these new citrus assets, which do not produce any income for at least four years after planting. This transition was made in the expectation that the existing duty structure would be maintained at least during the life of the amortization period.

It was anticipated that the cost of this migration would be recouped under the existing duty structure during the average 20 to 25 year tree life of the new groves. Because of the time required for a tree to reach maturity (3 to 7 years) much of the cost of the operations during the early years was out of pocket. Now it is proposed to change the rules of the game, to the detriment of not only the citrus growing investors, but also the financial institutions which participated in this long-term effort to improve the industry's productivity and competitiveness. Neither the growers nor their bankers can simply shift resources if their investments suddenly become non-competitive.

Maintenance of the existing duties for a minimum period sufficiently long for growers and producers to amortize that investment is a reasonable position for the industry and the government to take.

Since that position has been rejected, the safeguard mechanism must take into account the need for growers and processors to

amortize that investment without more severe losses. One such mechanism is a snap-back to normal tariff rates, regardless of whether the tariff rate quota has been filled, if world prices drop below a floor price determined to yield a season average breakeven point for economically and efficiently operated groves. Since juice is traded as a commodity, that price could be determined by reference to the public futures market price or spot market. When the price drops below that breakpoint, the duty for Mexican juice should return to the prevailing MFN specific rate, where it would remain until the average returned to normal levels.

Furthermore, the mechanism must work in a timely manner, without extended delays for any reason. Price declines inflict rapid damage on grower returns and debt servicing burden; only rapid response can prevent serious harm. In this regard, we must remind Congress and the Administration that the preferences offered by the United States to the Mexican citrus industry are truly unilateral and one-sided; there is no benefit to the U.S. processed citrus industry in this Agreement, since, as the ITC found, there is no opportunity to expand exports to Mexico. Therefore, citrus safeguards should not be burdened with extensive procedural delays or requirements for documented material injury findings reviews and analysis by agencies. The import sensitivity of the industry must take precedence.

This mechanism will acknowledge the reality that it is not the volume of Mexican juice per se which causes dislocation in the U.S. industry; it is the price at which that juice enters the U.S. market in volume, which is largely a function of world supplies and availability. A temporary return to specific rates of duty will

offset the cumulative impact of low-priced imports from Mexico along with already low-priced, substantial world supplies from giants such as Brazil. Again, Mexican juice will not simply displace Brazilian or other foreign origin juice; it will add to the drag on prices for juice from all suppliers, including Florida. The specific rate of duty has never prevented as much juice as necessary from entering the U.S. market. It has permitted growers from around the world to adjust to the vagaries of weather and other natural factors inherent in this agricultural industry.

## II. Harmonization of Labor and Environmental Standards

The Administration must reach side agreements with Mexico to harmonize labor and environmental standards, which present some of the greatest disparities between the U.S. and Mexican citrus sectors. If that industry has any comparative advantage vis-a-vis the U.S. industry, it is due to the absence of regulatory requirements we deem necessary to assure minimal worker and environmental protection. For instance, we are aware of instances in which Mexican growers have utilized chemical pesticides and fungicides for which registrations have long since been canceled in the United States. This not only reduces the cost of production and erodes its prices, it seriously compromises consumer health and welfare. Imported juice is often blended with domestic and other imported juice before reaching the consumer in the United States. The disparity in health standards must be equalized if we are to view Mexico as a true free trade partner.

Any legislation should provide specific authorization for the negotiations for these efforts, and the side agreements and

implementing legislation should make it clear that tariff reductions will not commence until these standards are harmonized, or that tariffs will snapback to MFN rates in the event of non-compliance.

### III. Statistical Collection Systems

A major concern of the industry has always been the ability of the U.S. Government to enforce the origin rules of the Agreement so that the NAFTA area countries do not become a mere conduit for juice from other large suppliers, seeking the lowest duty access to the U.S. market. The rules of origin in the Agreement are helpful, but their enforcement will determine whether the Agreement works as promised.

The legislation should establish specific authority for data collection and regular, central review in order to ascertain whether any product taking advantage of the Agreement originates outside the NAFTA countries. We suggest the establishment of an office within the USDA, Foreign Agriculture Service, whose specific undertaking will be to accumulate data from all available resources on citrus production and processing in Mexico. Sufficient manpower should be authorized for the Agricultural Attache to the U.S. Embassy in Mexico City to collect data from the appropriate agencies and organizations in Mexico on production, output, employment, sales, exports, imports and processing. Any parallel agreement between the U.S. and Mexico should provide for complete data exchange and, if necessary, verification assistance by U.S. personnel on citrus industry information.

A corollary to the data reporting and analysis is the use of

this data by the U.S. Customs Service, and cooperation between the U.S. and Mexican Customs Services to assure that any evidence of possible transshipment is fully aired and pursued. Both the implementing legislation and any parallel agreement must provide for this cooperation between the respective Customs Services and the respective Agricultural Ministries if Mexico is to expect to realize the gains anticipated from the Agreement for its citrus industry.

#### IV. Rules of Origin Verification

The Agreement contains rules of product origin intended to assure that only truly indigenous product takes advantage of the tariff reduction benefits. Documentary enforcement of those rules must be addressed in the implementing legislation for sensitive articles such as those in the C+ phase-in categories. At least with respect to these sensitive products, importers should be required to present to the Customs Service more than a declaration of origin; there should be an accompanying grower's and processor's proof of origin for any citrus juice. Each entry of orange juice for which preferential NAFTA treatment is claimed should be subject to physical inspection by Customs or USDA, or both. USDA inspectors should be required to maintain current information on the seasonal product characteristics of not only Mexican product, but of all other hemispheric supplies, so as to be able to identify non-Mexican juice and fresh citrus, if possible. In addition, the legislation should clarify that blended product incorporating any non-NAFTA country juice should not be eligible for preferential treatment.

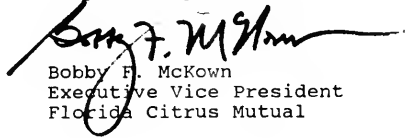
V. Conclusion

Many of our growers have operated this year at a break-even point or at a loss because of very low prices. Because of both depressed prices and cost escalation, many relatively large grove operations this spring placed several hundred grove care workers on layoffs. This, of course, has significant long-term implications, as grove care is critical to a continuance of high productivity.

Tight credit conditions imposed by banks and the difficulties of obtaining business loans because of price depression, as well as low profit expectations in the industry, make it exceedingly difficult for many of the operations to continue. Obviously, increased import pressures would worsen the employment situation and lead to a decrease in needed grove care and productivity and yields.

The modest improvements suggested here cannot offset the likely disruption the Agreement will visit upon the citrus industry. However, they can provide some assurance to the growers, processors, investors, and thousands of people in the industry that they will not be abandoned to the ideal of free trade which does not recognize the reality of world markets and commodity pricing.

Respectfully submitted,



Bobby F. McKown  
Executive Vice President  
Florida Citrus Mutual

## STATEMENT OF

DAVID NEILL

## PRESIDENT, TRIANGLE FARMS

MR. CHAIRMAN, MY NAME IS DAVID NEILL. I AM A TOMATO FARMER FROM FT. PIERCE, FLORIDA. I HAVE BEEN FARMING ON MY OWN SINCE 1972 AND MY FATHER STARTED GROWING TOMATOES IN FLORIDA IN THE MID 1930'S. LAST YEAR, I GREW 800 ACRES OF TOMATOES IN FLORIDA AND HAD ONE OF THE WORST YEARS IN HISTORY BECAUSE OF INDISCRIMINATE DUMPING OF MEXICAN TOMATOES INTO THE U.S.

ON TWO OCCASIONS LAST SPRING, IN FEBRUARY AND AGAIN IN MARCH, MEXICAN GROWERS DOUBLED THEIR SHIPMENTS INTO THE U.S. FOR A PERIOD OF ABOUT TWO WEEKS EACH TIME AND TOTALLY DEPRESSED THE ENTIRE WHOLESALE MARKET FOR TOMATOES IN THE U.S. THEY CONSIGNED TOMATOES ALL OVER THE U.S. THAT DIDN'T EVEN RETURN SHIPPING CHARGES.

WHY DO THEY NEED TO HAVE THE SMALL DUTY THAT NOW EXIST REMOVED? IT CERTAINLY IS NOT PREVENTING THEM FROM DOING BUSINESS IN THE U.S., AND EVEN WORSE, IT IS NOT GOING TO HELP ME SELL TOMATOES IN MEXICO.

THE ONLY THING MEXICO WILL BUY FROM THE U.S. IS WHAT THEY HAVE TO HAVE. NAFTA WILL NOT INCREASE MY SALES TO MEXICO UNLESS THEY HAVE A DISASTER AND DON'T HAVE ANY TOMATOES.

NAFTA DOES NOT ADDRESS THE UNFAIR PROVISIONS FOR PRODUCTION. I AM REGULATED BY RULES IMPOSED BY U.S.D.A., U.S. DEPARTMENT OF LABOR, EPA, FDA, DER, OSHA, SOUTH FLORIDA WATER MANAGEMENT DISTRICT, AND MANY MORE. EVERY TIME I TURN AROUND, I NEED ANOTHER PERMIT. THIS GREATLY INCREASES MY COSTS OF PRODUCTION.

THE MEXICAN PRODUCER HAS NONE OF THIS. THEY ARE USING INSECTICIDES IN MEXICO TODAY THAT WILL NOT BE APPROVED IN THE U.S. FOR YEARS OR MAYBE NOT AT ALL. THEY HAVE NO RESTRICTIONS ON THE USE OF CHEMICALS THAT ARE BANNED IN THE U.S., RESIDUE TESTING HAS SHOWN THE THIRD MOST COMMON PESTICIDE FOUND ON MEXICAN PRODUCE IS DDT, OUTLAWED IN THIS COUNTRY IN THE 60'S. IS THIS RIGHT, THAT ON ONE HAND OUR GOVERNMENT IS TELLING ME THE AMERICAN FARMER, YOU WILL APPLY A DIMINISHING ARSENAL OF CHEMICALS SAFELY AND CORRECTLY, THUS AFFORDING OUR WORKERS AND CONSUMERS A SAFE WORK PLACE, AND FOOD SUPPLY, BUT ON THE OTHER HAND ALLOWING FOOD TO BE PLACED ON THE GROCERY SHELVES THAT CAN BE SPRAYED WITH ANY CHEMICAL KNOWN TO MAN. THIS IS NOT RIGHT NOR FAIR TO THE AMERICAN PEOPLE OR FARMERS. EVERY TRAVEL AGENCY WILL TELL YOU NOT TO EAT FRESH FRUITS AND VEGETABLES IF YOU GO TO MEXICO. WHY CAN YOU EAT THEM HERE? DOES CROSSING THE BORDER PURIFY THEM?



WHY DOES MEXICO NEED A DUTY FREE AGREEMENT ON PERISHABLE AGRICULTURAL PRODUCTS? DURING THE PAST TEN YEARS, IT IS DIFFICULT TO FIND A SEASON THAT MEXICO DID NOT TOTALLY DEPRESS OUR MARKET BY INDISCRIMINATE DUMPING OF TOMATOES AT SOME TIME DURING THE PARTICULAR SEASON. GIVING FREE ACCESS TO OUR MARKETS WILL ONLY COMPOUND THE PROBLEM.

NAFTA IS NOT A GOOD TRADE AGREEMENT FOR THE FARMERS IN FLORIDA. TO HAVE "FREE TRADE," YOU MUST HAVE "FAIR TRADE." I URGE YOU TO KILL THIS AGREEMENT AND GO BACK TO THE BARGAINING TABLE AND ADDRESS THE ISSUES THAT HAVE BEEN DEFINED IN DEBATING NAFTA. DRAFT AN AGREEMENT THAT DOESN'T ENCOURAGE UNEMPLOYMENT IN THE U.S.

THANK YOU FOR ALLOWING ME TO PRESENT MY COMMENTS.

STATEMENT OF  
WAYNE HAWKINS  
EXECUTIVE VICE PRESIDENT  
FLORIDA TOMATO EXCHANGE

MR. CHAIRMAN, I WANT TO THANK YOU FOR ALLOWING ME THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE. I ALSO WANT TO THANK YOU FOR COMING TO FLORIDA FOR THIS HEARING WHICH GIVES GROWERS AND SHIPPERS AN OPPORTUNITY TO SEE HOW THEIR GOVERNMENT PERFORMS.

MY NAME IS WAYNE HAWKINS. I AM A NATIVE FLORIDIAN, BORN ON A FARM IN BROWARD COUNTY, AND HAVE BEEN INVOLVED IN AGRICULTURE ALL OF MY LIFE. FOR THE PAST 19 YEARS, I HAVE BEEN EXECUTIVE VICE PRESIDENT OF THE FLORIDA TOMATO EXCHANGE, A NON-PROFIT AGRICULTURAL COOPERATIVE ASSOCIATION WHOSE MEMBERS SELL MORE THAN 50% OF THE DOMESTICALLY GROWN TOMATOES FOR FRESH MARKET IN THE U.S. EACH YEAR. IN 1992-93, FLORIDA SHIPPED MORE THAN 65 MILLION 25-LB. CARTONS OF TOMATOES WITH A FARM VALUE OF MORE THAN 570 MILLION DOLLARS.

NUMEROUS GOVERNMENT STUDIES HAVE SHOWN THAT FRESH FLORIDA TOMATOES AND OTHER PERISHABLE AGRICULTURAL COMMODITIES WILL BE THE MOST ADVERSELY AFFECTED INDUSTRIES BY NAFTA. ONE STUDY PREDICTS THAT FLORIDA WILL LOSE 25% OF ITS TOMATO PRODUCTION AND 8,700 WORKERS WILL LOSE THEIR JOBS, THE FIRST YEAR. OTHER FIGURES ESTIMATE THE JOB LOSS TO BE MORE THAN 50,000 WORKERS WHEN YOU INCLUDE THE OTHER PERISHABLE COMMODITIES. A TRADE AGREEMENT THAT WILL CAUSE SUCH GREAT UNEMPLOYMENT WILL BE DEVASTATING FOR THE STATE OF FLORIDA.

THE FLORIDA TOMATO INDUSTRY IS NOT OPPOSED TO "FREE TRADE," BUT TO HAVE "FREE TRADE," YOU MUST HAVE "FAIR TRADE" AND NAFTA DOES NOT PROVIDE FOR "FAIR TRADE." TO HAVE "FAIR TRADE," YOU MUST HAVE EQUAL OR SIMILAR INPUTS TO TRADE. THIS IS NOT TRUE WHEN COMPARING MEXICAN PRODUCERS WITH FLORIDA PRODUCERS. THEIR SALARIES ARE ONLY A FRACTION OF OURS AND NUMEROUS GOVERNMENT REGULATIONS IMPOSED ON FLORIDA PRODUCERS ARE NON-EXISTENT IN MEXICO. THESE PROBLEMS ARE NOT ADDRESSED IN NAFTA.

TO COMPOUND THE PROBLEM FURTHER, MEXICO FINALLY BECAME A MEMBER OF GATT A FEW YEARS AGO, BUT TOTALLY IGNORED MOST OF THE RULES. IT'S REASONABLE TO ASSUME THAT THEY WOULD DO THE SAME THING WITH NAFTA. ALSO, THE U.S. GOVERNMENT HAS TWO SETS OF REGULATIONS -- ONE FOR DOMESTIC PRODUCERS -- AND ANOTHER FOR IMPORTS. A COUPLE OF EXAMPLES ARE:

1. THE AGRICULTURAL MARKETING AGREEMENT ACT OF 1937, AS AMENDED, REQUIRES IMPORTS TO MEET THE SAME TERMS OR CONDITIONS OF GRADE, SIZE, QUALITY OR MATURITY THAT ARE BEING IMPOSED ON DOMESTIC PRODUCERS UNDER A FEDERAL MARKETING ORDER. THIS AMENDMENT INTRODUCED BY THE LATE SENATOR SPESSARD HOLLAND WAS KNOWN AS

THE GOLDEN RULE AMENDMENT. THE U.S.D.A. ADDS THE WORD MINIMUM EVEN THOUGH IT DOESN'T EXIST IN THE LAW AND THIS TOTALLY NEGATES THE PROVISIONS OF THE GOLDEN RULE AMENDMENT.

2. THE TARIFF ACT OF 1930 REQUIRES ALL IMPORTS TO BE LABELLED AND IDENTIFIED TO THE ULTIMATE CONSUMER. PERISHABLES ARE EXEMPT FROM THIS PROVISION. IF THIS RULE WAS ENFORCED, WE COULD TELL CONSUMERS WHAT CHEMICALS MEXICO SPRAYS WITH AND INTELLIGENT PEOPLE WOULDN'T BUY THEIR PRODUCTS.

3. JUST TWO YEARS AGO THE TOMATO INDUSTRY IN THE U.S. ORGANIZED A JOINT EFFORT TO AMEND THE U.S. GRADE STANDARDS FOR FRESH TOMATOES SO THERE WOULD BE UNIFORMITY IN SIZING REGARDLESS OF WHERE THE TOMATOES WERE GROWN. THIS IS VERY IMPORTANT IF YOU ARE GOING TO HAVE ORDERLY MARKETING. U.S.D.A. EXEMPTED MEXICAN IMPORTS FROM THIS CHANGE AND AGAIN CREATED CHAOS IN WHOSESALE MARKETS.

4. RULES UNDER THE PERISHABLE AGRICULTURAL COMMODITIES ACT ARE ENFORCED DIFFERENTLY FOR MEXICO THAN FOR THE U.S. PRODUCER.

THESE ARE JUST A FEW AND TIME WILL NOT ALLOW ME TO ITEMIZE OTHERS. NONE OF THESE ARE ADDRESSED UNDER NAFTA.

THE NAFTA IS A BAD TRADE AGREEMENT. IT IS NOT GOOD FOR FLORIDA AGRICULTURE AND IT IS NOT GOOD FOR WORKING PEOPLE. THOUSANDS WILL LOSE THEIR JOBS. WHY TRY TO FIX A BAD AGREEMENT WITH ADDITIONAL SIDE AGREEMENTS THAT DON'T REALLY ADDRESS THE REAL PROBLEMS.

THIS ADMINISTRATION WAS ELECTED ON A PROMISE OF CHANGE. ALL YOU HEARD WAS, "IT'S TIME FOR A CHANGE." THE NAFTA IS A CARRY-OVER FROM THE PREVIOUS ADMINISTRATION AND IT IS NOT GOOD FOR MANY AMERICANS. LET'S IMPLEMENT "THE CHANGE." THROW OUT A BAD AGREEMENT -- GO BACK TO THE TABLE AND WRITE A NEW ONE -- A BETTER ONE.

MEXICO HAS SPENT IN EXCESS OF 45 MILLION DOLLARS LOBBYING IN THE U.S. TO GET NAFTA APPROVED. IT CERTAINLY MUST STRONGLY FAVOR THE MEXICANS OR THIS KIND OF MONEY WOULDN'T BE SPENT.

THE PRESIDENT, AS A CANDIDATE, SAID HE WANTED TO CHANGE THE POLICY OF FOREIGN LOBBYISTS BECOMING HIGH RANKING GOVERNMENT OFFICIALS, YET HE APPOINTED A MAN FOR ASSISTANT SECRETARY OF STATE IN CHARGE OF FOREIGN TRADE WHO IS A PARTNER IN THE FIRM THAT RECEIVED 4.2 MILLION DOLLARS FROM THE MEXICAN GOVERNMENT LAST YEAR TO LOBBY FOR NAFTA. HIS BOSS WAS LISTED IN THE WALL STREET JOURNAL AS THE TOP LOBBYIST FOR THE MEXICAN GOVERNMENT IN THE U.S.

I PERSONALLY WROTE THE PRESIDENT A TWO PAGE LETTER ON THIS APPOINTMENT AND RECEIVED A TWO SENTENCE REPLY SIGNED BY BILL CLINTON SAYING HE WAS GOING TO APPOINT HIM ANYWAY.

IT'S ABOUT TIME THE U.S. GOVERNMENT DID SOMETHING FOR ITS CITIZENS INSTEAD OF THE FOREIGNERS. WE AREN'T ASKING FOR MUCH. ALL WE WANT IS A FAIR CHANCE TO MARKET OUR PRODUCT IN OUR OWN COUNTRY.

THANK YOU.

Statement of John Holmes  
First Bank of Clewiston  
N.A.F.T.A. Hearing  
Orlando, Florida, July 31, 1993

I am Senior Vice President and Senior Lending Officer for the First Bank of Clewiston in Clewiston, Florida. First Bank is an \$85 million bank in the heart of the Everglades Agricultural Area. A town of less than 7000, a county of approximately 28,000, that, not unlike thousands of towns across America, depends on agriculture for its livelihood.

I myself have been a commercial banker for over 25 years and have banked the whole gamut--commercial airlines, national corporations, energy suppliers, small businesses, the thoroughbred industry; and agriculture. Without a doubt, the toughest industry to bank is agriculture.

Without going into a long dissertation about the many pitfalls and opportunities in banking the agricultural industry, let me say that it does not fit within conventional rules. Leaf blight, flooding rains, the freeze of the century, a commodity market gone South, a tax of \$20-\$25 per acre to assist in Everglades restoration, and now a NAFTA that totally pales the other opportunities and pitfalls.

While most of my customers support new markets, more trade, and more avenues to distribute their products, they simply ask for a fair deal, a level

playing field. As currently drafted, this treaty will have a devastating effect on the Florida agricultural industry - the second largest industry in the state.

The South Florida agricultural area is one of the most productive and efficient agricultural areas in the county. However, NAFTA would have my citrus farmers spend \$1.00 in production cost for every 49 cents spent south of our border; and the equation is even worse for the sugarcane and vegetable farmers. The wage scale, the environmental regulations, the cost of production totally discriminates against my customers.

As previously stated, my bank has approximately \$85 million in assets with a loan portfolio of approximately \$65 million. Our loan portfolio is a mixture of retail, agriculture, and small business loans. If this treaty passes in its current state, lending will probably be severely curtailed. The potential income and cash flow of my customers will be harshly damaged, thus limiting their borrowing ability. It--NAFTA--will be a depression catalyst on the South Florida agricultural area.

In closing, I must re-iterate that the NAFTA concept is one in which I, and most, can agree and endorse. However, the treaty says in itself: Free Trade. To me, and many of my customers, the F stands for Fair. Give us a level field, a Fair field, and we will - and can - compete with anyone.

TESTIMONY OF ALAN HAMMOCK  
NAFTA HEARING  
ORLANDO, FLORIDA  
JULY 31, 1993

MY NAME IS ALAN HAMMOCK. THIS IS MY WIFE ARDIS. WE WORK WITH MY AUNT VEE FRIERSON PLATT ON HER 70+ YEAR-OLD FARM ON THE SOUTHERN SHORE OF LAKE OKEECHOBEE. THE CHANGES THAT HAVE HAPPENED TO AGRICULTURE ON THIS FARM IN MY LATE UNCLE ED FRIERSON'S DAYS WERE MANY, AND SOME, VERY DIFFICULT. HE ONLY HAD TO ENDURE DROUGHTS, FLOODS, HURRICANES, CROP DIVERSIFICATION, AND MODERNIZATION IN FARMING. IN MY 20 YEARS ON THE FARM I, TOO, HAVE SEEN MANY CHANGES. NEW AND STRINGENT LABOR AND ENVIRONMENTAL LAWS HAVE BEEN ENACTED. WORKERS COMPENSATION, UNEMPLOYMENT, AND MEDICAL INSURANCE COSTS HAVE SKYROCKETED. MANY OF OUR MOST EFFECTIVE PESTICIDES HAVE BEEN DISCONTINUED. ENDLESS RECORDS HAVE TO BE KEPT WHICH REALLY REQUIRES A FULL-TIME SECRETARY, BUT THAT'S AN EXPENSE WE CAN'T AFFORD; SO CONSEQUENTLY I HAVE TO SPEND MORE AND MORE TIME OUT OF THE FIELD.

THE DIFFERENCE BETWEEN MY UNCLE'S FIGHT FOR

SURVIVAL AND OURS NOW, IS HE ONLY HAD TO CONTEND WITH THE U. S. GOVERNMENT. THAT IN ITSELF IS ALMOST AN IMPOSSIBLE TASK. BUT WITH THIS AGREEMENT, WE WILL BE MANDATED TO COMPETE WITH A GOVERNMENT THAT REQUIRES LITTLE OR NONE OF THE SAME LAWS I HAVE TO OBEY TO STAY IN BUSINESS: MEXICO.

CHANGES IN PESTICIDE LAWS HAVE MADE IT SO THE MINOR CROPS (ALL THOSE EXCEPT WHEAT, CORN AND SOYBEANS) ARE IN JEOPARDY OF EXTINCTION. CURRENTLY, WE MEASURE RESIDUES IN PPB. THAT WAS NOT EVEN CONCEIVABLE WHEN EXISTING PESTICIDE LAWS WERE WRITTEN. BECAUSE OF NEW REGULATIONS, THE PRICE OF PESTICIDES HAS ESCALATED SUBSTANTIALLY IN THE PAST FEW YEARS.

BECAUSE OF HIGH LABOR COSTS, WE HAVE HAD TO MOVE MORE AND MORE TO MECHANIZATION ON OUR FARM. NOW OUR GOVERNMENT WANTS US TO COMPETE WITH GROWERS IN MEXICO WHOSE LABOR COSTS ARE ONLY A FRACTION OF OURS. HOW CAN THIS BE?

NOW OUR GOVERNMENT WILL IMPOSE WHAT APPEARS TO BE THE FINAL BLOW--NAFTA. THERE IS NO WAY WE CAN CHANGE

OUR PRACTICES TO CUT EXPENSES ON OUR FARM IN ORDER TO COMPETE WITH THE PRICE MEXICAN SUGAR CAN SELL FOR. WE HAVE BEEN DEALT A HAND THAT THERE IS NO WIN OR DRAW TO-- ONLY LOSE.

6/31/93



TESTIMONY OF ARDIS HAMMOCK  
NAFTA HEARING  
ORLANDO, FLORIDA  
JULY 31, 1993

I AM A MOTHER TRYING TO PROTECT A PRECIOUS WAY OF LIFE THAT WAS PASSED ON TO OUR FAMILY.

THE DECISIONS MADE BY THIS COMMITTEE WILL HEAVILY INFLUENCE OTHERS. PLEASE REMEMBER WHEN YOU MAKE YOUR DECISION ABOUT NAFTA THAT IT WILL NOT LAST ONE HOUR OR ONE DAY, BUT A LIFETIME FOR A SMALL FAMILY FARM AND OUR CHILDREN.

IT'S REALLY HARD TO EXPLAIN TO YOUR 9- AND 10-YEAR-OLDS WHAT NAFTA IS ABOUT. I'D LIKE FOR YOU TO MEET THE 9- AND 10-YEAR-OLDS I AM REFERRING TO. THIS SHOULD NOT HAVE TO BE A CONCERN OR WORRY FOR THEM. MY EXPLANATION TO THEM WAS "IF WE WERE TO PLAY A GAME LIKE THE NAFTA GAME WE WOULD ALL BE PLAYING THE SAME GAME; THE ONLY THING DIFFERENT WOULD BE WE WOULD EACH HAVE A DIFFERENT SET OF RULES TO PLAY BY. NO ONE COULD ACCUSE THE OTHER OF CHEATING BECAUSE WE WOULD ALL HAVE OUR OWN SET OF RULES. AND, AS WITH MOST GAMES, THE ONE WHO GOES BROKE

FIRST WOULD LOSE. IN THIS GAME, THE WINNER IS HELPED BY HAVING THE LEAST AND EASIEST RULES TO PLAY BY." THIS IS HOW I PERCEIVE THE NAFTA GAME. WE AREN'T FREE TO CHOOSE IF WE WANT TO PLAY OR WHAT RULES WE ARE GIVEN TO PLAY BY. THERE IS NO CONSIDERATION OF FAIRNESS.

I HAVE ALWAYS TAUGHT MY CHILDREN THAT THERE IS ONE SET OF RULES--THE SAME SET OF RULES--FOR ALL TO PLAY BY. IN ORDER TO PLAY THE GAME, ALL MUST PLAY BY THE RULES AND PLAY FAIR. THOSE WHO DON'T MUST LEAVE THE GAME. AS WITH ALL CHILDREN, THERE ARE ARGUMENTS AND OPINIONS ABOUT THE RULES. THE RULES ARE WRITTEN TO BE INTERPRETED ONE WAY--FAIRNESS TO ALL. IN BASEBALL, FOOTBALL AND BASKETBALL WE HAVE REFEREES AND UMPIRES. THEIR DECISION IS FINAL AND THEY KNOW THE ONE CLEAR CUT SET OF RULES. WHO WILL BE THE REFEREE AND UMPIRES IN THE NAFTA GAME? HOW CAN THERE BE ANY FAIRNESS WHEN THERE ARE TWO DIFFERENT SETS OF RULES? HOW CAN I KNOW THAT MEXICAN FARMERS ARE PLAYING BY THE SAME RULES THAT I HAVE TO PLAY BY?

OF COURSE, I WILL ALSO CONTINUE TO TEACH MY CHILDREN

THAT SOMETIMES LIFE ISN'T FAIR. BUT THE REASON USUALLY IS BECAUSE SOMEONE ISN'T PLAYING BY THE RULES AND ALL ARE HURT BY THESE BROKEN RULES.

I IMPLORE MY GOVERNMENT TO PROTECT THE HANDS THAT FEED ITS PEOPLE AND BE FAIR TO ALL THE PLAYERS IN THIS GAME. PLEASE DO NOT CONTINUE TO PLAY IN A GAME, OR FORCE US TO PLAY IN A GAME, THAT WILL DESTROY SUGARCANE FARMING IN SOUTH FLORIDA.

THERE CAN BE AN AGREEMENT TO HELP MEXICAN AND U. S. FARMERS BUT ONLY IF WE HAVE THE SAME SET OF RULES.

NAFTA SHOULD STAND FOR NORTH AMERICAN FAIR TRADE AGREEMENT. THE WAY THE RULES ARE WRITTEN NOW, IT STANDS FOR NO AGRICULTURAL FAMILIES THROUGHOUT AMERICA.

7/31/93

# G.A. TUCKER & SONS

REGISTERED BRAHMAN AND CROSSBRED CATTLE

PHONE: (407) 636-6840 • FAX: (407) 636-1976 • 4115 SOUTH FISKE BLVD. • ROCKLEDGE, FLORIDA 32955-5008

STATEMENT ON NAFTA  
BY ANDY TUCKER, A FLORIDA RANCHER

AGRICULTURE WOULD BE THE NUMBER ONE INDUSTRY IN FLORIDA IF FORESTRY AND HORSES WERE RIGHTFULLY INCLUDED. FLORIDA AGRICULTURE PRODUCERS FACE MANY PRESSURES NOT ASSOCIATED WITH THE NORMAL PRODUCTION EFFORTS ACROSS THIS COUNTRY. NAFTA AS IS BEING CONSIDERED WILL GREATLY ADD TO THESE PRESSURES.

I WISH YOU COULD REName THIS AGREEMENT THE NORTH AMERICAN EQUAL TRADE AGREEMENT. FLORIDA AGRICULTURE CAN COMPETE WITH ANYONE ANYWHERE ON EQUAL FOOTING.

THE WORD FREE IN OUR SOCIETY TODAY MEANS SOMETHING FOR NOTHING. FLORIDA AGRICULTURE CERTAINLY KNOWS THIS IS NOT TRUE.

I KNOW FROM FIRST HAND EXPERIENCE THE ATTITUDE PREVALENT IN MEXICO CONCERNING BYPASSING RESTRICTIONS, RULES, AND REGULATIONS. THE CURRENT AGREEMENT NEEDS TO BE AMENDED TO ADDRESS THIS SHORTFALL. PLEASE TAKE HEED TO THE CONCERNS SHARED HERE TODAY TO NOT ELIMINATE A VIABLE INDUSTRY.

THANK YOU.

ROCKLEDGE



## TA BRAHMANS

**Statement on  
the North American Free Trade Agreement  
by NCA Region II Vice-President Andy Tucker  
July 31, 1993**

Mr. Chairman, thank you for the opportunity to share our views on the North America Free Trade Agreement. I am a cow-calf producer from Rockledge, Florida. I serve as Region II Vice-President for the National Cattlemen's Association and represent eight southeastern states.

The National Cattlemen's Association supports the North America Free Trade Agreement for a very simple reason. It is a good growth opportunity for our beef business. Mexico and Canada provide logical potential to expand our market.

-more-

Looking ahead, we in the U.S. beef business have recognized that foreign markets are the key to economic growth. Growing world export markets have been a shining star for the U.S. beef business and beef producers during the last decade. The value of U.S. beef exports last year was nearly \$4.3 billion, up from \$2 billion 10 years ago. In contrast, beef imports in 1992 amounted to \$3.3 billion, leaving a positive trade balance of nearly \$970 million. Increased beef exports mean more jobs in rural America and more money in cattle producers' wallets.

Mexico is a particularly significant market for our industry. It is our third largest export market. Last year U.S. exports of beef and variety meats to Mexico amounted to \$260 million. That market has grown about \$50 million per year since 1989. The value of live cattle exports to Mexico in 1992 was \$149.5 million. These live exports include slaughter and breeding cattle. The U.S. imports of Mexican feeder cattle have averaged near 1 million head over the last five years but due to a strong Mexican market were only 800,000 in 1992.

-more-

### So why do we need a NAFTA?

Last fall Mexico imposed tariffs on imports of live cattle and beef. 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 NAFTA is the most effective way to immediately eliminate these tariffs for U.S. beef producers. The NAFTA also would phase out a 20 percent tariff on beef variety meats over 10 years. Taking away the threat of tariffs, import licenses and other trade barriers that disrupt marketing patterns makes Mexico a much less risky market.

The NAFTA will not change the strict U.S. animal health standards which Mexican cattle now must pass before being imported into the United States. In fact, NCA hopes that under the NAFTA, Mexico will strengthen animal disease control and eradication procedures to remain competitive in the U.S. market.

-more-

NCA is pleased that the U.S. will maintain its environmental, health and safety standards under the NAFTA. The NAFTA protects federal, state and local environmental standards and assures the right of each country to strengthen those standards, as long as they are based on sound science. Continued improvements in U.S., Canada and Mexican environments requires economic growth. The NAFTA will open Mexican markets to U.S. environmental technology, products, services and investments.

A good trade agreement is a win-win situation for all countries involved. NCA is participating in the Ag for NAFTA coalition to help educate Congress and others about the importance of the agreement to our industry. We are committed to free and fair trade, not only with Mexico and Canada, but with other countries around the world.



**TESTIMONY OF STEVE BASFORD**

**President Florida Pork Improvement Group  
Vice President Florida Soybean Association  
President Jackson County Farm Bureau  
Member Florida Peanut Producers Association  
Before the House of Representatives Agriculture Committee**

I AM A DIVERSIFIED FARMER FROM GRAND RIDGE IN JACKSON COUNTY FLORIDA. I HAVE ALWAYS BEEN VERY ACTIVE IN THE ASSOCIATIONS THAT REPRESENT COMMODITIES THAT I GROW. I APPRECIATE THE OPPORTUNITY TO ADDRESS THIS IMPORTANT COMMITTEE.

I PRODUCE SEVERAL COMMODITIES INCLUDING PORK, SOYBEANS AND CORN THAT MANY BELIEVE WILL BENEFIT FROM THIS NORTH AMERICAN FREE TRADE AGREEMENT. HOWEVER, I DO NOT SHARE THIS BELIEF. BECAUSE FLORIDA STANDS TO BE ADVERSELY AFFECTED BY THIS AGREEMENT, FLORIDA PRODUCERS HAVE EXAMINED IT IN GREAT DETAIL. MY EXPERIENCE HAS SHOWN THAT THE MORE ANY FARMER LEARNS ABOUT NAFTA THE LESS THEY LIKE IT.

WHILE IT IS POSSIBLE SOME COMMODITIES COULD BENEFIT FROM THE AGREEMENT, IT IS LIKELY PEANUTS WILL SUFFER. IN JACKSON COUNTY, PEANUTS ARE EXTREMELY IMPORTANT. MOST FARMERS IN JACKSON COUNTY AND ACROSS NORTHWEST FLORIDA DEPEND HEAVILY ON PEANUTS TO KEEP THEM IN FARMING. WITHOUT THIS VITAL PROGRAM CROP THAT RELIES ON SUPPLY MANAGEMENT TO MAINTAIN A FLOOR PRICE, MANY FARMERS WOULD BE FORCED OUT OF BUSINESS. THE NAFTA, AS WE KNOW IT, WOULD ALLOW AN EROSION OF THE SUPPLY MANAGEMENT PROGRAM THAT WORKS SO WELL. WE CANNOT

AFFORD TO ALLOW MEXICO OR OTHER COUNTRIES TO PROVIDE FOR OUR DOMESTIC PEANUT MARKET. IF WE UNDERMINE THE SUPPLY DEMAND BALANCE CURRENTLY IN PLACE, WE CAN EXPECT PROFITS TO GO DOWN. IF THIS HAPPENS, MANY PRODUCERS IN NORTH FLORIDA WILL BE FORCED OUT OF BUSINESS. SEVERAL YEARS AGO THERE WERE PRODUCERS WHO ONLY GREW SOYBEANS AND CORN IN MY AREA. THAT IS NO LONGER TRUE. IF IT HADN'T BEEN FOR PROGRAM CROPS, SUCH AS PEANUTS AND COTTON, MANY MORE FARMERS WOULD BE OUT OF BUSINESS.

THE FARMERS I REPRESENT SHARE THE CONCERNS OF OTHER FLORIDA FARMERS AND ARE STRONGLY OPPOSED TO NAFTA IN ITS CURRENT FORM. IN PORK AND SOYBEANS, WE HAVE SEEN OTHER COUNTRIES DISREGARD TRADING RULES AT OUR EXPENSE. MEXICO DOES NOT HAVE A GOOD RECORD OF COMPLIANCE WITH GATT RULES AND I DO NOT BELIEVE THEY WILL ADHERE TO ANY NAFTA PROVISIONS THAT ARE NOT IN THEIR BEST INTEREST.

IF AN AGREEMENT REQUIRES MEXICO COMPLY WITH THE SAME REGULATIONS AS THE U.S., IT WILL BE DIFFICULT TO MONITOR AND ENFORCE SUCH REGULATIONS. MY GOVERNMENT HAS PLACED INCREASED LABOR AND ENVIRONMENTAL COSTS ON FARMING; THEREFORE, THEY SHOULD BE RESPONSIBLE FOR HELPING PROTECT MY MARKET.

IN MY OPINION, THE PEANUT PROGRAM OPERATES MUCH LIKE TARIFFS ON CITRUS AND VEGETABLES IN THAT IT PROVIDES SOME MARKET PROTECTION FOR INCREASED COSTS OF PRODUCTION WE FACE.

I BELIEVE THAT ANY INCREASE IN SALES OF U.S. PRODUCED COMMODITIES WILL BE MORE THAN OFF-SET BY LOSS OF IMPORTANT MARKETS. WE IN AGRICULTURE HAVE WORKED VERY HARD TO PROVIDE SAFE, ABUNDANT FOOD AT A REASONABLE PRICE. EACH OF YOU KNOW HOW WELL THIS HAS BEEN ACCOMPLISHED. I AM CONCERNED THIS AGREEMENT COULD ALLOW A DECREASE IN THE SAFETY OF OUR FOOD AND AN INCREASE IN THE COST OF FOOD IF DOMESTIC PRODUCERS ARE FORCED OUT OF BUSINESS BY MEXICAN PRODUCTION.

I WOULD LIKE TO CONCLUDE BY THANKING CONGRESSMAN LEWIS AND CANADY AND CONGRESSWOMAN THURMAN FOR THEIR WORK ON OUR BEHALF TO PROTECT FLORIDA'S FARMERS. I URGE EACH OF YOU TO CAREFULLY CONSIDER THIS NAFTA AND KEEP FLORIDA FARMERS IN MIND AS YOU DECIDE HOW TO VOTE.

THANK YOU FOR YOUR TIME.



## FLORIDA PEANUT PRODUCERS ASSOCIATION

P.O. Box 447, Graceville, Florida 32440  
(904) 263-6130 or 6210

Member  
Peanut Advisory Board

### TESTIMONY

FLORIDA PEANUT PRODUCERS ASSOCIATION  
D.A. LEWIS, VICE-PRESIDENT

NAFTA HEARING  
BEFORE THE  
COMMITTEE ON AGRICULTURE  
UNITED STATES HOUSE OF REPRESENTATIVES  
JULY 31, 1993

THANK YOU, MR. CHAIRMAN, FOR THE OPPORTUNITY TO APPEAR TODAY. I AM D. A. LEWIS, JR., A PEANUT FARMER AND VICE-PRESIDENT OF THE FLORIDA PEANUT PRODUCERS ASSOCIATION. OUR ASSOCIATION REPRESENTS NEARLY 1,500 PEANUT FARMERS IN FLORIDA. WE ARE ALSO MEMBERS OF THE NATIONAL PEANUT GROWERS GROUP, AN UMBRELLA ORGANIZATION REPRESENTING OVER 40,000 PEANUT FARMERS IN ALL PEANUT PRODUCING STATES AND THE NATIONAL PEANUT COUNCIL, AN ORGANIZATION REPRESENTING ALL SEGMENTS OF THE PEANUT INDUSTRY FROM THE GROWER TO THE MANUFACTURER.

THE FLORIDA PEANUT PRODUCERS ASSOCIATION APPRECIATES ALL YOU HAVE ACCOMPLISHED, MR. CHAIRMAN, IN SECURING LANGUAGE IN THE NORTH AMERICAN FREE TRADE AGREEMENT THAT WILL ENSURE THAT MEXICAN PEANUTS WILL MEET THE SAME QUALITY STANDARDS AS U. S. PEANUTS AND WILL ALSO ENSURE THAT ALL PEANUTS AND PEANUT PRODUCTS IMPORTED FROM MEXICO BE FROM MEXICAN PRODUCTION AND NOT TRANSSHIPPED FROM OTHER COUNTRIES. HOWEVER, EVEN WITH THESE ASSURANCES, OUR ASSOCIATION BELIEVES THAT NAFTA CONTINUES TO BE A HASTILY CONCLUDED BILATERAL AGREEMENT THAT PROVIDES SPECIAL CONCESSIONS TO MEXICO AT THE EXPENSE OF PEANUT PRODUCERS AND OTHER COMMODITY PRODUCERS ACROSS THE UNITED STATES.

FIRST AND FOREMOST, THE TREATY UNNECESSARILY SACRIFICES SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT OF 1933, AS AMENDED. IN DEVELOPING THE CANADIAN FREE TRADE TREATY, SECTION 22 WAS NOT ELIMINATED AND, AS MEXICO IS NOT CURRENTLY A PEANUT EXPORTER, THE ELIMINATION OF SECTION 22 WAS NOT NECESSARY TO REACH THE AGREEMENT. TO ELIMINATE SECTION 22 ENCOURAGES PEANUT PRODUCTION IN MEXICO WHICH DISPLACES U.S. PRODUCTION, COSTING DOMESTIC PRODUCERS AND THE U.S. GOVERNMENT. WE HOLD FIRM THE BELIEF THAT SECTION 22 SHOULD BE RETAINED.

ONE OF THE BIGGEST CONCERNS FROM PEANUT FARMERS IS THE U.S. CUSTOMS SERVICE ABILITY TO ENFORCE PROVISIONS ALREADY INCLUDED IN NAFTA. REDUCED MANPOWER AND POOR SURVEILLANCE WILL ENCOURAGE RE-IMPORTATION OF U.S. PEANUTS, IMPORTATION OF POOR QUALITY MEXICAN-GROWN PEANUTS, AND TRANSSHIPMENT OF NON-MEXICAN PEANUTS AND PEANUT PRODUCTS. CONTINUED ASSURANCES FROM THE ADMINISTRATION ARE MEANINGLESS IF 1) THERE IS NO ABILITY TO ENFORCE LANGUAGE ALREADY WRITTEN INTO NAFTA AND 2) THERE IS NO PENALTY FOR DISREGARDING LANGUAGE ALREADY WRITTEN INTO NAFTA.

WE BELIEVE LANGUAGE SHOULD BE INCLUDED INTO NAFTA IMPLEMENTING LEGISLATION STATING THAT: "IF U.S. ADDITIONAL STOCK PEANUTS ARE RE-ENTERED INTO THE UNITED STATES IN COMMERCIAL QUANTITIES, THE IMPORTER THEREOF SHALL BE SUBJECT TO A PENALTY AT A RATE EQUAL TO 140 PERCENT OF THE LOAN LEVEL FOR QUOTA PEANUTS ON THE QUANTITY OF PEANUTS RE-ENTERED. ALL PERSONS, FIRMS, OR HANDLERS WHO IMPORT PEANUTS SHALL MAINTAIN RECORDS AND DOCUMENTS TO ENSURE COMPLIANCE WITH THIS SUBSECTION IN ORDER TO MAINTAIN THE INTEGRITY OF THE PEANUT PPROGRAM."

I CANNOT STRESS ENOUGH THE NEED FOR STRONG RULES OF ENFORCEMENT FOR THESE PROVISIONS. DURING CONSIDERATION OF THE CANADIAN FREE TRADE TREATY, THE PEANUT INDUSTRY WAS REPEATEDLY ASSURED BY THE ADMINISTRATION THAT PEANUTS WERE NOT AFFECTED BY THE TREATY. SINCE THEN, IMPORTATION OF PEANUT PRODUCTS FROM CANADA, A NON-PEANUT PRODUCING COUNTRY, HAS INCREASED OVER 400 PERCENT, DISPLACING U.S. GROWN PEANUTS.

MR CHAIRMAN, THROUGHOUT NEGOTIATIONS FOR NAFTA AND GATT, PEANUT PRODUCERS HAVE BEEN REPEATEDLY TOLD THAT THEY WERE ONE OF THE "BIG LOSERS." EVEN SO, PEANUT FARMERS ARE NO STRANGER TO THE UNCERTAINTY CHANGES CREATE. WE CONTINUE TO FEEL THAT OUR CONCERNS HAVE NOT BEEN ADEQUATELY ADDRESSED, ESPECIALLY IN THE AREA OF ENFORCEMENT OF PROVISIONS IN NAFTA. WE WILL CONTINUE TO PRESENT OUR CONCERNS TO THIS COMMITTEE AND TO OUR NEGOTIATORS. AGAIN, MR. CHAIRMAN, THE FLORIDA PEANUT PRODUCERS ASSOCIATION THANKS YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY.

TESTIMONY TO THE HOUSE AGRICULTURE COMMITTEE  
ON THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)  
FROM THE FARMWORKER ASSOCIATION OF FLORIDA

The Farmworker Association of Florida is a member organization of over 5,000 Hispanic, Haitian, and Afro-American farmworker families in Central and South Florida who have organized together to find ways to address the many problems they experience.

The Association is very concerned about the effects that the passage of the NAFTA will have on the lives of farmworkers and other U.S. residents. And while we see others mentioned in articles in newspapers and in other literature and discussions about NAFTA, we see no concern raised about the effects on the lives of farmworkers.

The National Agricultural Workers Survey, 1990 has found in its review of farmworkers' wages and working conditions that in the Southeast: (a) farmworkers are among the poorest of the working poor of this nation; (b) the highest percentage of hand-harvesting jobs in agriculture exist there; and (c) farm labor contractors are the most common employers. Some of the worst abuses in agriculture exist where farm labor contractors are involved.

Many farmworkers work for minimum wage and their hours are not guaranteed. While the minimum wage increased in 1990 for the first time since 1982, the increase was only 13.4%. This did not even keep up with the increase in the cost of living over those years, which was 46.7%. During the last ten years, those who work for piece rate received little or no increase in wages, and yet production demands in many cases continue to increase. Between 1982 and 1986, Florida experienced two hard freezes. Many companies said that they lost money during that time and so could not pay their workers any better. And yet a study done by Dr. Marshall Barry\* has documented that farm owners in Florida received a net increase of 26.2%, after expenses, out of every dollar of goods sold during that period, while money spent on farm labor decreased by 8.3%. It is clear that even in the United States, and especially in Florida, farmworkers are among the most disadvantaged workers.

**IT IS THESE FARMWORKERS THAT ARE GOING TO BE GREATLY AFFECTED BY THE NORTH AMERICAN FREE TRADE AGREEMENT.**

In Mexico, the hourly wage ranges from \$.80 - \$ 1.50 an hour. Basically you could say that what farmworkers earn here in a day, would pay for a week's work in Mexico. If companies are allowed to raise crops there while paying such low wages and sell them here with no additional costs, the selling price of these crops will undercut those of crops being grown in this country. This will cause many small companies to go out of business because they will not be able to compete with these drastically lower prices from Mexico, thus putting many farmworkers out of work. This hits at the very heart of what we claim in this country to be one of our strengths - the ability of people to run small businesses in order to provide services to our people. NAFTA runs the risk of destroying that business base and consolidating the strength of big businesses further into monopolies.

Large multinationals, who care only for profit, will benefit greatly through NAFTA because they will be able to afford to go to Mexico, create new businesses or transfer ones from the U.S., and make even more profit than they do here off the backs of the poorest people. We would hope that our government would not support an agreement that would take advantage of farmworkers, the poorest people in our society. However, this is the way it looks to us.

Under and un-employment are already very high in the farmworker community. It appears that this agreement will make it worse. Besides all the farmworkers here that will lose their jobs, small farmers in Mexico will be put out of business and join the migrant stream, thus increasing further the number of people looking for work here.

\* The Adverse Impact of Immigration on Florida's Farmworkers by Dr. Marshall Barry.

We have heard it said that with this agreement Mexicans will be able to buy more goods from the United States. But if United States companies going to Mexico will be paying the same low salaries that those already there are paying, then Mexicans will not have the money to purchase these goods and so this will not increase our exports to a significant amount.

Another issue of great concern to farmworkers is that of enforcement of laws protecting farmworkers. When I first began working with farmworkers, I thought that we had won when laws got passed. However, I soon realized that unless enforcement of these laws took place, the laws had no teeth in them. And always it is our experience in this country that enforcement is seriously under-funded especially when it relates to farmworkers.

Even though we have minimum wage laws, they are often violated; pesticides are applied without proper protection for workers; field sanitation regulations are ignored and safety standards are lowered for the sake of profit. And in all these cases, enforcement is severely underfunded. In addition, we believe many employers will use this agreement as an excuse not to make changes in their poor employment practices. This would defeat the very reason for having laws in this country.

We do not believe that the situation will be any better in Mexico, which has a somewhat worse history of enforcement. In particular this will be true in the use of pesticides. Many pesticides already banned in the U.S. are still used in Mexico. If we buy these crops, we will be exposing our people to many health problems and re-introducing ones that we have succeeded in defeating by banning the use of certain chemicals. We may as well close down the Environmental Protection Agency (EPA) because even though EPA can improve greatly, NAFTA will make a mockery of anything EPA tries to do.

Presently agriculture is the second largest industry in Florida. Passage of NAFTA has the potential of seriously damaging the whole Florida economy by undermining Florida agriculture.

Those farmworkers who will lose their jobs if this is passed, need to be guaranteed that the government, which is pushing this agreement, will provide them with the training they will need to find other jobs, or to help create other jobs so they will be able to support their families. While we believe that there will be some re-training money set aside, specific regulations need to be set up to insure that farmworkers will be included in this training monies if the agreement is signed, and not all used to retrain other workers. This is a matter of morality and conscience. Those without retraining could be forced with their families into forms of public assistance. Tax money is far better invested in job training or creating new jobs than in turning hard working farmworkers toward seeking public assistance. Since this has been done in the effort to convert defense industries into peacetime industries, it should also be done in this case, where farmworkers will also be put out of work.

Because of all of these issues, we strongly believe that the North American Free Trade Agreement should not be signed, especially in its present form. We also believe that all import sensitive winter produce - fruits, vegetables, citrus, and horticultural products - should be exempt from this agreement even it goes into effect for other industries.



**STATEMENT**  
**ON THE**  
**NORTH AMERICAN FREE TRADE AGREEMENT**

by

**Robert A. Williams**  
**FLORIDA RURAL LEGAL SERVICES**  
511 Beverly Street  
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**HOUSE AGRICULTURE COMMITTEE**

**HEARING**

**ORLANDO**

**JULY 31, 1993**

Statement of Florida Rural Legal Services  
To the House Agriculture Committee  
On the North American Free Trade Agreement (NAFTA)

July 31, 1993  
Orlando Florida

Florida Rural Legal Services is a non-profit legal service program which represents farmworkers and other poor people in a thirteen county area in South and Central Florida. We appreciate the opportunity to give our perspective on how NAFTA will affect our farmworker clients.

There are at least one hundred and fifty thousand people in Florida who are dependent on seasonal agricultural work for their livelihood. Contrary to some opinion, the vast majority of these people are legal residents of the United States. By any measure, this is a uniquely vulnerable workforce. Florida's farmworkers are among the poorest in the nation; more than sixty percent are illiterate--most do not speak English. Yet, we are reminded of their importance in our lives, every time we drink a glass of Florida orange juice or admire the winter produce in our supermarkets.

As we now know from the work of the national Commission on Agricultural Workers, since the 1980's, the wages and working conditions of the nation's farmworkers have remained relatively stagnant. For many seasonal workers, real earnings and working conditions have actually declined. We have all seen the news stories and exposes documenting the continued exploitation and abuse which is all too common in agriculture. Yet, and I cannot emphasize this point too strongly, things do not have to be this way. There are agricultural employers who comply with the law, offer their workers better wages and working conditions, and still make a profit. For example, last year, farmworker advocates reached an agreement with the U.S. Sugar Corporation, Florida's largest agricultural employer for a new pay system and a dispute resolution procedure which may prove to be a model for the rest of agriculture.

The Commission on Agricultural Workers specifically noted that the globalization of agriculture has allowed labor-intensive fruits, vegetables, and horticultural specialty products to be grown and distributed by countries whose wages are only a fraction of comparable U.S. wage costs. The Commission specifically looked at how fruit and vegetable agriculture can remain competitive in the world market while affording a decent life for its workers and reached the following conclusion:

*The response of the United States to competition from countries that pay even lower wages should be the development of a more structured and stable domestic agricultural labor market with increasingly productive workers. Industries must modernize to remain successful in the increasingly competitive international market place. Agriculture is no exception.*

Among other things, the Commission found that providing better housing for seasonal workers was a critical step to developing a stable and committed labor force.

The Commission's report is one blueprint for the future of agricultural labor in Florida, but it would require that we finally face up to some of the changes that are long-overdue. Getting rid of the crewleader system would be a start. Again, a few companies such as U.S. Sugar and A.Duda & Sons have made major strides toward improving their labor management practices along the lines suggested by the Commission's report. Unfortunately, whatever progress has been made will be jeopardized by the passage of NAFTA.

One would be hardpressed to name another group of workers who is likely to pay a higher price for the supposed benefits of "free trade" than Florida's farmworkers. One study estimates that if the tariff on the importation of Mexican tomatoes was removed, twenty percent of the Florida tomato industry would be lost immediately, including thousands of farmworker jobs. Not only would the NAFTA devastate the winter vegetable industry but citrus, sugar, and Florida's horticultural industry would be seriously affected as well. There are other more subtle effects which also flow from the NAFTA which, although not as dramatic as the direct loss of jobs, would lead to a bleak future for Florida's farmworkers.

Currently, there is a large surplus of agricultural labor here in Florida and in every area of the United States. This surplus is the product of the immigration of the last decade--both legal and illegal. The surplus is the cause of the declines in real wages which I mentioned earlier. For example, in real terms, workers employed by farm labor contractors saw their wages fall by one third in the period from 1989 to 1991. Annual earnings have been falling even more, as more and more farmworkers compete for the same jobs. The best information currently available shows that the average harvest worker is able to find work only 131 days of the year; as a consequence three-fifths of the nation's harvest workers are below the poverty line, despite the prevalence of two income families.

Paradoxically, one impact of the NAFTA will actually be to increase immigration to the United States. The NAFTA will produce major workplace dislocations in Mexico as well as the United States. Just as here, there is no assurance that those who are displaced will benefit from the new jobs that will be created by the Agreement. One group which is likely to be particularly hard hit are Mexico's peasant farmers who will be unable to compete with Midwest corn producers. This is exactly the group which fuels the current migration to the United States for agricultural labor. An additional factor which will add to the impetus for further migration is the planned breakup of the *ejido* system, under which peasant farmers farm land held in common. A third factor leading to increased migration is a consequence of the accelerated shift within Mexico to an export agriculture based on fruit and vegetable production. The current center of the Mexican winter vegetable industry in Sinaloa, Mexico is a way station for migrant workers, not just from southern Mexico, but also from El Salvador and Guatemala. Workers pulled into this migrant stream are likely to continue on a few hundred miles more to the more lucrative jobs in the United States. Expanding Mexico's internal migration in order to meet the seasonal labor needs of export-oriented agriculture will inevitably result in more, not fewer workers crossing

the border to compete for the remaining farmworker jobs.

Even those who support NAFTA such as agricultural labor economist Phil Martin admit that NAFTA will increase, not decrease, the flow of undocumented aliens coming to the United States to perform agricultural work.

As far as making the Commission's recommendation regarding stabilizing the agricultural work force a reality, there will be little incentive to do so if NAFTA passes in its current form. NAFTA will result in even more workers chasing fewer jobs, thus undercutting wages and working conditions still further. Moreover, growers will be reluctant to invest in a long-run strategy to hire and retain a more productive domestic work force, if their own economic future is jeopardized.

Housing is a key element of such a strategy. Everywhere in Florida, the run-down, dilapidated housing which shelters most of Florida's farmworker families is already grossly overcrowded. Hurricane Andrew destroyed more farmworker housing in a single night than has been built in Florida in the last twenty years. A severe housing crisis is looming in Southwest Florida, where over one hundred thousand acres of citrus have been planted but little progress has been made in building housing for the seven thousand additional workers that will be needed when those groves come into production. Housing like a citrus grove is a long-term investment. Lenders are already asking why build any more farmworker housing if NAFTA passes.

We also need to look at incentives for facilitating workers' movements from one short-term job to another, particularly between crops which have the potential of decreasing farmworkers' peak season underemployment and stabilizing the same labor force. We need to look at ways to improve farmworkers access to the health care system. We need to improve the enforcement of farm labor and minimum wage laws which even some growers would welcome, so long as the rules are the same for everyone. While these changes are long overdue, and should be made as a matter of simple justice, it must be acknowledged that no progress can be made without increasing the cost of production and that the increased costs will ultimately be passed along to the consumer in higher prices for fruits and vegetables.

Once NAFTA passes, however, there will be a powerful rationale for permanently deferring these needed changes on the theory that any additional costs will simply result in agriculture relocating to Mexico.

NAFTA proponents hold out the prospect of job retraining for displaced workers. For farmworkers this is an empty promise. Nearly half of U.S. farmworkers have less than an eighth grade education. What jobs are these workers going to be trained for? Certainly not work in auto factories. More to the point, what job opportunities will exist in rural agricultural communities such as Immokalee or Clewiston that workers can be retrained for? Retraining may be an option for an educated, unionized worker who loses his job because of a plant closing--it is unlikely to work for an under-educated migrant in a rural small town, who sees his job opportunities evaporating over a period of years, as first one farm then another goes out of

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business.

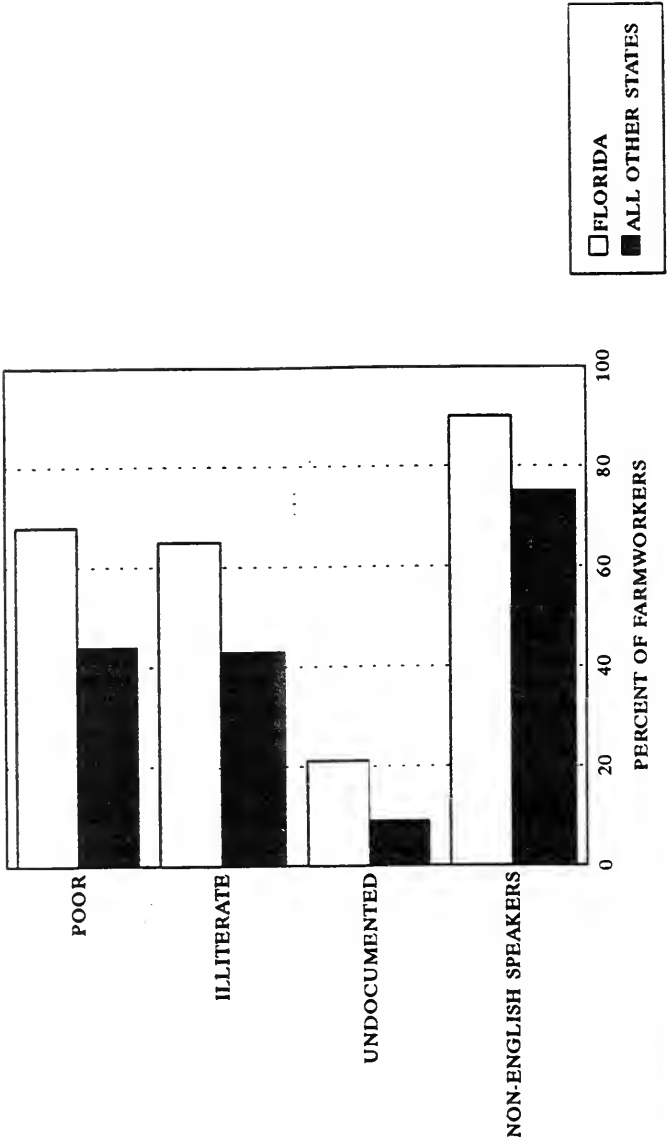
Even if job retraining were an option, the farmworkers' share of any retraining funds is likely to be small. At present, the DOL does not even have an estimate of how many farmworkers are likely to be displaced by NAFTA or what training would cost. Because most farmworkers live in poverty and relocate often, they will not be able to participate in training programs unless they are provided with living expenses during training. Before they can learn new job skills, farmworkers need literacy programs, first in their native language and then English. A conservative estimate based on a loss of fifty thousand jobs in Florida and a cost of \$5,000 per trainee (based on what DOL currently spends to retrain and place a farmworker) suggests that the NAFTA price tag for retraining farmworkers in Florida alone would be \$250,000,000.

While there is no suggestion that under NAFTA, the huge wage differences between U.S. and Mexican agricultural wages will be eliminated, we are told that differences in the working conditions between the two countries will be reduced because of tighter enforcement of labor standards in Mexico. Again, farmworkers know better. There are many laws and regulations on the books which purport to protect Florida's farmworkers. Enforcement, however, has been woefully inadequate. In particular, the continuation of the fiction that the crewleader or labor contractor is really the employer, and not the grower, is a glaring loophole that dooms enforcement of our supposedly higher standards from the start. We have no reason to think that enforcement by the Mexican authorities will be any better.

The Office of Technology Assessment has said that the greatest danger of NAFTA is that it could bring out the worst in each country. We believe that the greatest danger of NAFTA for farmworkers is that it could lock us into the failed policies of the past. Instead of moving forward as the Commission on Agricultural Workers has suggested to a more structured and stable domestic agricultural workforce with better wages and benefits, we will continue to rely on maintaining a large surplus of farmworkers generated by a continuing influx of new immigrants to keep wages low. Labor contracting and its abuses will increase both as part of a strategy to reduce wages and working conditions further and as a way to avoid employer sanctions. The problems of chronic underemployment and poor housing will continue to go unaddressed. We think this is the wrong path to take. Accordingly, we strongly recommend the delay of any implementation of tariff phase-outs for winter-produced fruits, vegetables, citrus and citrus products, sugar, tropical fruits and ornamental horticultural products until Mexico complies with environmental, labor, sanitary and phytosanitary requirements.

(Attachment follows:)

# FARMWORKERS IN FLORIDA: A COMPARISON WITH REST OF COUNTRY



## Redlands Christian Migrant Association

219 North First Street • Immokalee, Florida 33934 • (813) 657-3135

### RCMA Education Effort For Rural Poverty Children



Testimony Before the

U.S. House Committee on Agriculture

Saturday, July 31, 1993

City Hall

Orlando, Florida

I am Wendell N. Rollason, executive vice president of the Redlands Christian Migrant Association. My appearance before this august body is to express grave concerns for the plight of farmworkers, both seasonal and migrant, here in the State of Florida when and if the North American Free Trade Agreement comes into being. The damaging effects -- and, indeed they clearly will be devastating because of Mexico and Florida having almost identical growing seasons -- the damaging effects for workers will consist primarily of taking away the livelihood of tens upon tens of thousand of men and women who, while highly skilled in harvesting fruits and vegetables, largely possess no other marketable skills.

Let me give a bit on my qualifications here before you today. This is my 43rd year working with migrant and seasonal farmworker children and their parents, my 28th year with RCMA where we daily serve 5,000 children during the agricultural season in Florida, my 13th year chairing the Governor's Advisory Council on Farmworker Affairs

*"If we could have one generation of properly born, trained, educated, and healthy children, a thousand other problems of government would vanish."*

*Pres. Herbert Hoover, 1930*

under one Republican and two Democratic governors. In addition I served on the National Commission on Migrant Education as an appointee of the U.S. Senate. We rendered our report to the Congress just this last September. On June 20th, invited by the chairman, I testified before the House Subcommittee on Elementary and Secondary Schools. A bit prior to that I testified before the U.S. arm of the Helsinki Commission on the issue of hardships faced by children in the migrant stream.

I feel, thus, fully qualified to tell you that these kids and their parents will have the rugs yanked from under them in the most devastating manner much, much sooner than predictions I have seen floating around that say, in effect, "oh you don't have to worry for some years yet".

I'm not an expert on agricultural economics, but I am knowledgeable. Agricultural interests of the U.S. are either (a) already in Mexico fully functional, (b) in the process of buying in, or (c) waiting to see how they must jump depending on the coming Congressional action. Were I in the business I'd do whatever I could, whatever I had to do to continue farming. So I have no quarrel with those who will move into Mexico to save their livelihood.

But the workers. What about them? I'm savvy enough to realize that in all probability NAFTA in some form will pass. And obviously there are agricultural interests in the nation that are beating the drums for NAFTA. I, for one, expect it to become a reality.

So I am left to plead for a 15 year phase-in period for Florida agriculture and protection for Florida farmworker jobs. Let's give time to avoid a wipeout, to permit Florida agriculture to see how and with which crops a healthy agriculture might co-exist with Mexico -- and, if not, giving time for other economic decisions.



But most of all to give farmworkers the time to retrain for other fields of work, or to shift to other perhaps more viable agricultural areas of the nation. Or take advantage of whatever other opportunities might open for them.

In closing I plead for this committee to champion the protection of farmworkers here in this state or wherever else in U.S. agriculture similar problems might arise. Make this a top priority, not an afterthought or even no thought at all.

These workers, the growers, too, are together one of the few remaining bastions of the American work ethic. The growers here are well represented and can speak for themselves. I'm here to speak for the children who by far will be hurt the worst. And their parents who in another role are our nation's harvesters. They deserve your forceful support. They've earned it unquestionably the hard way.

Our country must not shrug them off with a "that's tough, guys. That's the breaks. See ya around sometime".

Thank you.

oOo

(workers)

GOOD MORNING. MY NAME IS DAVID BAKER. I AM PRESIDENT OF THE CHAMBER OF COMMERCE OF THE PALM BEACHES, THE OLDEST AND LARGEST BUSINESS ASSOCIATION IN PALM BEACH COUNTY WITH A CURRENT MEMBERSHIP OF OVER 1,500 BUSINESSES. I APPRECIATE THE OPPORTUNITY TO PROVIDE TESTIMONY REGARDING THE IMPORTANT ROLE AGRICULTURE PLAYS IN PALM BEACH COUNTY'S ECONOMY.

IN PALM BEACH COUNTY, OUR AGRICULTURAL INDUSTRY PRODUCES VEGETABLES, SUGARCANE, CITRUS AND RICE. THE TOTAL CASH VALUE OF THESE CROPS WAS OVER \$1 BILLION IN 1991. OVER 25% OF THE UNITED STATES SUGARCANE PRODUCTION IS HARVESTED IN THE EVERGLADES AGRICULTURAL AREA LOCATED IN WESTERN PALM BEACH COUNTY. THIS SAME RICH AGRICULTURAL AREA IS THE LEADING PRODUCER OF SWEET CORN AND RADISHES IN OUR COUNTRY. IN PALM BEACH COUNTY, OVER 565,000 ACRES OF LAND ARE CURRENTLY INVOLVED IN SOME TYPE OF AGRICULTURAL PRODUCTION.

THE ECONOMIC IMPACT OF THIS BILLION DOLLAR INDUSTRY IS BROUGHT HOME WHEN I INFORM YOU THAT AGRICULTURE IN SALARIES ALONE DIRECTLY PUTS OVER \$361 MILLION PER YEAR INTO OUR LOCAL MARKETPLACE. THE INDIRECT ECONOMIC IMPACT EASILY BRINGS AGRICULTURE'S TOTAL DOLLAR CONTRIBUTION IN THE PALM BEACHES TO WELL OVER \$1 BILLION.

THE NORTH AMERICAN FREE TRADE AGREEMENT IN ITS CURRENT FORM WOULD HAVE A DEVASTATING IMPACT ON AGRICULTURE IN OUR COMMUNITY AND THREATEN THE LIVELIHOOD OF TENS OF THOUSANDS OF RESIDENTS IN PALM BEACH COUNTY. A COUNTY OF OVER 900,000

RESIDENTS WHO CURRENTLY BENEFIT FROM A DIVERSIFIED ECONOMIC BASE WOULD SEE ITS SECOND LARGEST INDUSTRY DECIMATED UNLESS THE APPROPRIATE SIDE AGREEMENTS ARE NEGOTIATED IN CONJUNCTION WITH NAFTA.

IT IS OUR HOPE THAT YOU, OUR ELECTED REPRESENTATIVES, WILL ENSURE THAT A LEVEL PLAYING FIELD IS GUARANTEED TO AGRICULTURE IN NOT ONLY PALM BEACH COUNTY, BUT THROUGHOUT AMERICA. FREE TRADE MUST GUARANTEE FAIR TRADE.

STATEMENT OF LEO C. POLOPOLUS, PROFESSOR OF FOOD AND RESOURCE  
ECONOMICS, UNIVERSITY OF FLORIDA

before the

U.S. HOUSE COMMITTEE ON AGRICULTURE

regarding

**ECONOMIC IMPACT OF AGRICULTURAL-RELATED PROVISIONS OF THE  
PROPOSED NORTH AMERICAN FREE TRADE AGREEMENT**

Orlando, Florida

July 31, 1993

Thank you. Mr. Chairman and members of the Committee on Agriculture of the United States House of Representatives. I am honored and pleased to present my views on the likely economic impact of the proposed NAFTA agreement on Florida agriculture. My views are based on 28 years of experience as an agricultural economist in the State of Florida. I have previously served as Director of Economics for the Florida Citrus Commission, as well as full professor of agricultural economics at the University of Florida since 1969.

Rather than deal with the theoretical issues of free trade, I would like to concentrate upon the likely economic impacts of the proposed North American Free Trade Agreement, particularly as it relates to Mexico and Florida. Lowering U.S. import duties to zero on Mexican fruits and vegetables is only part of the problem for Florida. This presumed equity in tariff schedules will not offset the inequity that remains with environmental regulations, wage rates, and worker benefits between the two geographic regions, particularly as related to fruit and vegetable production. Whether trade liberalization in fruits and vegetables occurs immediately or over the next few years, an adverse economic on Florida agriculture will be forthcoming from increased imports of these products from Mexico (Polopolus, 1992).

In 1990, Mexican horticultural exports to the United States were \$1.5 billion, accounting for 56 per cent of Mexican agricultural exports. Tomatoes, peppers, and cucumbers are important vegetables exported from Mexico to the United States (Hufbauer and Schott, 1992, p. 288). Easier Mexican entry into U.S. markets via lower tariffs is expected to greatly increase Mexico's horticultural exports to the United States, lower product prices, and place Florida growers in economic jeopardy. Two of Florida's leading agricultural commodity sectors, fresh market tomatoes and orange juice, are expected to be the most severely affected by NAFTA.

With reference to the sugar provisions, the United States negotiators were simply too naive in assuming that Mexico is unlikely to be a net exporter of sugar by the seventh year of the agreement. The agreement permits Mexico to have an unlimited sugar quota in the United States market if they become net exporters for two successive years following the sixth year of the agreement. Many of us that have followed Mexico's sugar industry over the years know that Mexico has the soil, climate, labor, and other factors necessary for greatly expanded sugar

output. The NAFTA agreement also creates a "goal" of increased sugar output by Mexico's sugar oligopolists, so as to achieve unlimited quota status in the U.S. market.

It is my view that Mexico will indeed become a net exporter of sugar to the United States within seven years. This situation will either: (a) cause the United States to reduce the sugar quotas of the present 39 other nations that supply sugar under the current sugar program; or (b) cause the Congress to develop a new and different sugar price support program.

Mexico could become a net exporter of sugar to the United States market in a variety of ways. The Mexican sugar oligopolists (previously a monopoly) could import large quantities of Cuban sugar (at lower world market prices), but label it Mexican sugar for Mexican consumption and dispatch Mexican sugar to the U.S. market (at much higher U.S. prices). This would be illegal under the transshipment rules of NAFTA, but strong enforcement mechanisms would have to be developed to avoid such shenanigans.

Another plausible (and more likely) method for Mexico to become a net exporter of sugar for two successive years is via the substitution of high fructose corn syrup for sugar in Mexican soft drinks. Currently, the soft drink industry in Mexico utilizes real sugar in its beverage formulations. Shifting to corn syrups for Mexican soft drinks could free up at least one half million tons of sugar for export to the United States. Such a level of exports from Mexico into the United States market would have an adverse impact on the sugar price support program and the welfare of the Florida and other domestic sugar producers.

The bottom line in terms of adverse impact on Florida agriculture from the proposed NAFTA agreement is reduced production, employment, and income for the Florida agricultural economy. According to my estimates, there are over 300,000 people employed annually in Florida's farm supply, farm production, and agricultural packing/processing industries. In addition, there are countless thousands of people employed in closely related agribusiness activities, such as in wholesale trade, retail trade, transportation, finance, real estate, construction, and telecommunications.

As currently drafted and without a level playing field in terms of environmental regulations and labor benefits, it is highly possible for NAFTA to impose a net loss of 100,000 direct agricultural jobs in Florida (because of lower domestic farm prices from increased Mexican imports). These job losses would be concentrated in Florida's citrus, vegetable, and sugar industries. Because of the multiplier effects, additional non-agricultural employment would also be adversely affected in Florida, particularly in the rural areas.

Unless alternative industries are quickly established to soften the fall of agriculture, the adverse impact of foreign competition erodes not only the job base, but also weakens the value of land, which in turn further weakens the financial viability of production agriculture. In a worst case scenario, low priced foreign imports makes farming unprofitable, reduces production and employment, and devalues farm land. These are the likely realities of NAFTA's impact on Florida agriculture, irrespective of your philosophical views on free trade issues.

(Attachment follows:)

**References**

Hufbauer, Gary C., and Jeffrey J. Schott, North American Free Trade: Issues and Recommendations, Washington, D.C., Institute of International Economics, 1992.

Polopolus, Leo C., "North American Free Trade Agreement, Caribbean Basin Initiative, and Florida Agriculture," Florida Food and Resource Economics, No. 108, Gainesville, University of Florida, September-October 1992.

Embargoed Until Delivered

PREPARED STATEMENT OF JERRY HAAR  
MEMBER, INTERNATIONAL ECONOMIC DEVELOPMENT GROUP  
GREATER MIAMI CHAMBER OF COMMERCE  
AND SENIOR RESEARCH ASSOCIATE  
THE NORTH-SOUTH CENTER, UNIVERSITY OF MIAMI  
BEFORE THE COMMITTEE ON AGRICULTURE, U.S. HOUSE OF REPRESENTATIVES  
FIELD HEARING ON NAFTA  
ORLANDO, FLORIDA  
JULY 31, 1993

Mr. Chairman and Members of the committee, I welcome the opportunity to appear before you today on behalf of the Greater Miami Chamber of Commerce as well as the North-South Center at the University of Miami. The Greater Miami Chamber is an association of businesses and professionals with over 4,000 company members organized to promote economic development in the Greater Miami area. Representing 300,000 employees (40% of Miami's work force), our goal is to promote through substantive programs Greater Miami's role as Florida's preeminent center for international business and to help our members expand their business opportunities.

The North-South Center at the University of Miami is a leading public policy research and information center exclusively dedicated to finding practical solutions to problems facing the nations of the Western Hemisphere. Its programs of timely and pertinent research, cooperative study, and education and training benefit U.S. citizens by supplying knowledge and expertise directly applicable to our nation's concerns in the Americas. The Center has become widely recognized for research and public policy analysis on the implications of the North American Free Trade Agreement (NAFTA). We are presently directing 31 projects that focus on NAFTA and hemisphere-wide trade arrangements, including a comprehensive assessment of NAFTA's expected impact on the communications and transportation sectors in partnership with the University of Texas at Austin. Although the Center is a neutral, academic forum that does not take policy positions, individual scholars and researchers such as myself do. Within that context, I have been asked to testify at this hearing.

The Greater Miami Chamber of Commerce, supported by extensive, impartial research by organizations such as the North-South Center, the Latin American and Caribbean Center at Florida International University and other nationally prominent research centers, firmly believes that the North American Free Trade Agreement, with side agreements to strengthen its labor and environmental provisions, will bring lasting benefits that will exceed its costs in the agricultural as well as non-agricultural areas. We therefore urge the members of this committee to vote to ratify the Agreement.

BENEFITS OF NAFTA

NAFTA will unify a market of 363 million people and a total GDP of US \$7 trillion that will benefit small and medium-sized businesses in the United States, including thousands of small enterprises involved in all facets of manufactured and agricultural products. Passage of NAFTA

is extremely important to members of the Greater Miami Chamber of Commerce, perhaps even more for the commercial opportunities it will create than for those that presently exist. As a service-based economy, Miami is genuinely concerned with balanced, equitable, and dynamic growth throughout the State of Florida. As the gateway to the Americas, Miami's economic health is contingent upon the steady and increasing volume and variety of inbound and outbound trade. Mexico, particularly its Gulf ports, holds significant opportunities for trade, commerce and services.

As this committee is aware, the "agricultural sector" of our nation in general, and Florida in particular, encompasses not only farmers, but also other members of the agribusiness family including distribution and support services, agricultural chemicals, transportation, financial services, and food processing. Many of these ancillary activities are carried out by Chamber member firms, thereby adding to the economic growth and development of the State.

#### IMPACT ON FLORIDA AGRICULTURE

Just how significant is the agricultural sector to the Florida economy? The honest answer is: not very. Presently, the contribution of agriculture, forestry and fishing combined to the Gross State Product is approximately 2%. In 1960, agriculture, forestry and fishing accounted for 6.7% of Florida employment; in 1989, it was 3.1%. Moreover, the State's Florida Industry and Occupational Employment Projections, 1989-2000 projects a significant, further drop in agricultural crop employment by the year 2000. (One should note that the forecast does not factor in NAFTA. With or without the Agreement, agriculture crop employment will continue to decline in importance for the Florida economy.)

Admittedly, certain Florida fruits and vegetables will be affected by agricultural trade liberalization with Mexico. However, the negative effects nowhere approximate those which have been very crudely estimated and often hysterically reported by the Florida citrus and vegetable lobby. The impact of the Agreement on Florida agriculture does not even come close to approaching the apocalyptic scenario portrayed by the industry association and the Florida Department of Agriculture. The fears among sugar, orange juice, and vegetable producers that Mexican competitors will displace them from the U.S. market is overstated because NAFTA contains special provisions to protect sensitive Florida agricultural products.

In the case of sugar, access to the U.S. market is limited by a 15-year transition period and by the requirement that increased access during this period be tied to Mexico becoming a net surplus producer of sugar--highly unlikely given the anticipated strong internal demand for sugar in Mexico's domestic market. U.S. Department of Agriculture (USDA) projections confirm that Mexico will not be a net surplus producer of sugar in the foreseeable future. Yet, if Mexico were to export sugar, U.S. producers would not be affected because import quotas for third countries would be reduced accordingly with any increase in Mexican imports.

As for orange juice, here, too, there is a 15-year transition period. Orange juice, in fact, will have the slowest rate of tariff reduction of any product covered by NAFTA for the first 10 years. The USDA has predicted that orange juice imports from Mexico will increase only



slightly while U.S. exports of fresh oranges to Mexico will increase significantly, due in large part to Mexico's removal of its 20 percent tariff on fresh orange imports. Any slight increase of imports from Mexico will be offset by higher U.S. orange juice exports to other countries such as Japan, where U.S. exports increased 79 percent in the first six months of 1992. Additionally, any increased imports from Mexico will come at the expense of other exporters including Brazil. Presently, the U.S. imports 30-50 percent of domestically consumed orange juice, but only 10% of imports are from Mexico. Mexico currently does not have the acreage devoted to citrus to pose a threat to Florida; moreover, it is not expected that the Mexican orange juice industry will come anywhere close to competing with Florida.

The increasing demand by orange juice importing countries that stringent health certification requirements be met provides an additional competitive advantage for Florida citrus producers. In contrast to foreign producers, Florida has the ability to provide this documentation easily. Additionally, Florida citrus is of premium quality. By focusing on higher-end purchasers, Florida producers will be able to stay competitive and profitable. To illustrate, State agricultural export specialists expect Florida citrus producers to dominate the Japanese market for 100 percent premium orange juice, just as they do in the grapefruit market.

In the category of winter vegetables, there are seasonal safeguard measures and, again, 10-15 year transition periods to ease the shift to free trade for winter fruits and vegetables. Other Florida agricultural sectors are clearly projected to gain from NAFTA. The Agreement will open up Mexican markets to Florida farmers by eliminating, for example, import licenses on dairy products and potatoes and eliminating tariffs (e.g. cattle and beef, 15-25 percent) either immediately or over time. Overall, Florida agricultural exports to Mexico already have increased by over 4,000 percent between 1987 and 1992, and they will increase even more with NAFTA. Mexico provides a splendid market for U.S. exports for fresh vegetables during Mexico's off-season.

As for safeguards, NAFTA contains "snap-back" provisions for sensitive agricultural products under which only a limited amount of Mexican product will be allowed to enter at low or zero duty rates before higher rates are automatically triggered. These safeguard provisions pertain to seven horticultural items that accounted for about \$340 million in imports from Mexico in 1991, or about 15 percent of the U.S. agricultural import total. Roughly half the amount is tomatoes. Safety and health provisions under NAFTA will allow Federal and State governments to maintain stringent environmental safety and health standards including sanitary and phytosanitary requirements for agricultural products.

#### NATIONAL AGRICULTURAL IMPACT

One should constantly bear in mind that Mexico is the United States' third largest export market for agricultural goods; and that in the aggregate, the U.S. agricultural industry will gain far more than it loses under the Agreement. The USDA has estimated that NAFTA will result in a \$2-\$2.5 billion annual jump in farm exports, and a three percent boost in yearly farm cash receipts. The overall effects of NAFTA, we predict, will be to lock in recent gains of U.S. agricultural export trade to Mexico which has risen from \$1.1 billion in 1986 to over \$3.7

billion in 1992. For example, NAFTA is expected to lead to about a 20 percent increase in U.S. wheat exports to Mexico and slightly higher U.S. prices by the end of the transition period. Additionally, U.S. corn exports are expected to be 60 percent higher, and industry revenues for corn and grain sorghum will likely increase by about \$400 to \$500 million, due to NAFTA, by the end of the transition period. U.S. rice exports, as well, will likely increase 10 to 20 percent, and higher prices and production are expected to add \$400-\$500 million to the U.S. soybean industry. The U.S. dairy industry is also expected to benefit from NAFTA because Mexico's demand for dairy products, due to population and income growth, is projected to outpace dairy production. Mexican imports of U.S. milk powder are expected to grow by about 20,000 metric tons by the end of the 15-year transition period. That would be \$36 million in additional dairy export sales.

Thus, the Accord will provide a larger agricultural export market for U.S. producers; expand high value trade; increase production efficiency; ensure the integrity of U.S. standards; facilitate investment in agriculture; provide stronger protection for agriculture inventions, patents, and technologies; and benefit agricultural transportation--particularly U.S. companies that have an overwhelming advantage over Mexico in international truck and rail transport.

It is also important to point out that as the standard of living improves in Mexico, the growing middle-class will be demanding the same fruits, vegetables, and other agricultural products as those grown in Florida, thereby increasing both the demand and the price for these Florida-based agricultural exports. At the same time it will curtail U.S. imports of competitive Mexican agricultural products due to strong internal demand in that nation.

This is not mere speculation. Research tells us that as incomes and socioeconomic mobility rise--as is expected in Mexico, Canada and the U.S.--nutritional habits change as well. People eat healthier; and that means more fruits and vegetables, resulting in increased demand for these foods in all three NAFTA countries.

### STRATEGIES FOR U.S. PRODUCERS

Examining the evolution of the farm sector within the United States over the last three decades, one finds the U.S. to be the most efficient agricultural producer in the world. Better farm technologies have helped U.S. farmers increase their yields significantly. The opportunity to compete rather than retreat in world markets is what U.S. farmers--especially those in Florida--should demand. As competition increases, however, it is always easy to tag foreign producers as scapegoats. Maintaining or increasing tariffs and non-tariff barriers is not the answer. The automobile, steel, textiles and apparel, electronics, and chemical industries are examples of sectors that have at one time or another chosen the path of protectionism--an easier, yet false option--rather than restructuring, readjusting, reorganizing, and renovating.

As a business consultant, I have examined the footwear, textile, apparel and machine tool industries--all of which are vulnerable to foreign competition. While it is true that a great number of enterprises in these industries have gone out of business, there have also been a great many success stories of companies that were able to not only survive, but thrive. They did so

by matching both domestic and foreign competition through bold leadership, creative management, innovation, and productivity improvement. Some firms decided to contract out part of their manufacturing or assembly. Footwear companies for example, began to source tongues and uppersoles from other, lower cost U.S. firms or from offshore producers in order to decrease production costs. Others ceased manufacturing and became distributors. Still other firms decided to set up joint-venture activities overseas, sourcing from themselves and assembling or simply distributing the finished product.

The lesson here is that these options are available, as well, to U.S. agricultural producers. There are numerous cases of farmers who have transformed their operations into packing houses or distribution centers or have purchased outright or in partnership farms overseas and have expanded processing and distribution operations at home, thereby increasing volume, lowering the cost of production, and subsequently becoming more profitable. The California citrus industry is a case in point where through joint ventures growers have gained a strong foothold in Mexico. Additionally, the tomato industry is beginning to look for overseas markets for high-quality U.S. tomatoes rather than just relying on the domestic market.

The NAFTA guarantee of "snap-back" provisions, as well as the 10-15 year phase-in period for barrier reductions, allows Florida agricultural interests that could be affected by trade liberalization under the Agreement ample opportunity to choose any of these options--including the possibility of joint-ventures with their counterparts in Mexico. In addition, Florida agricultural interests should also explore producing for export, as well as domestic consumption, non-traditional and exotic fruits and vegetables as a means to diversify the State's agricultural portfolio. By all accounts, this strategy will prove quite beneficial.

Increased access to the Mexican market, along with increased Mexican demand for agricultural equipment, fertilizers, and technical services, means significant opportunities for Florida agribusiness. To illustrate, the agricultural chemical and fertilizer industry in Florida consists of over 100 companies with more than 8,000 employees. As Mexico prepares to modernize and expand its agricultural sector in general, demand for the advanced agricultural chemicals produced in Florida will continue to grow, and employment in these industries will rise. Next year Mexico will most likely consume an additional 300,000 tons or more of phosphate, above the 900,000 tons that Mexican government statistics report for 1991. Florida, already a major phosphate exporter to Mexico, will provide 70 percent of this, or about 200,000 tons.

#### THE BROADER IMPLICATIONS OF NAFTA

Finally, this committee, in its quest to sort out the national interest from special interests, should focus on NAFTA within the larger context of foreign policy and national security. With the Latin American region finally emerging from a decade of debt, nations coming out of economic recession, and the arrival of peace in Central America, we would be slamming the door on trade as a means to economic renewal and security--for ourselves as well as our neighbors. Rejection of NAFTA would show our trading partners the world over that we are not serious about trade integration and free markets, but are actually protectionists at heart.

A realistic appraisal of the Agreement clearly indicates that neither the benefits nor consequences of NAFTA will be felt overnight. The 10-15 year "phase-in" period for the removal of tariffs and the existence of "snap-back" provisions are testimony to that. NAFTA's symbolic impact, however, will be immediate--one which will create the world's largest trading zone and demonstrate that the United States believes in open trade, the market economy, and consumer democracy, not just for its own citizens but for its hemispheric neighbors and partners as well.

For Florida, NAFTA's importance goes beyond the Agreement itself. We at the Greater Miami Chamber strongly believe that NAFTA is the first step for other trade accords between the U.S. and the other countries of Latin America upon which Miami and South Florida, as well as the rest of the State, depend for their business. Florida has significant trading relationships with all the nations of Latin America and the Caribbean, with the exception of communist Cuba. The Caribbean Basin, as well as the Andean countries, are regions of great trade significance and trade-related employment generation for the people of South Florida. Therefore, it is important that NAFTA initiates, rather than concludes, the development of U.S.'s trade agreement initiatives with other countries.

In conclusion, every study I have seen on NAFTA's impact on the State of Florida concludes that net benefits will exceed net costs. As for employment effects, in particular, neither an overwhelming number of jobs will be created, nor an overwhelming number lost. In those cases where agricultural jobs are lost specifically because of NAFTA-based tariff reductions, it would be more efficient to provide each worker with a \$100,000 trade adjustment compensation grant than to have the American consumer pay a higher price for the particular agricultural commodity. To illustrate, U.S. trade restrictions increase the price of frozen concentrated orange juice to American consumers from 35 to 44 percent. The cost to consumers per job saved is approximately \$240,000 per year--a very expensive way to protect jobs that pay less than \$23,000 per year. Simply stated, consumer price savings due to Mexican commodity imports, combined with NAFTA-related employment gains in all sectors will more than offset the cost of these suggested (and generous) trade adjustment compensation awards made to Florida agricultural workers whose jobs are lost.

True, there may be a great sucking sound coming from the South to which Mr. H. Ross Perot refers. However, if there is, it is not the sound of jobs being swept away, but the growing crescendo of Mexican consumers and industrial buyers taking in an increasing volume and variety of U.S. exports, agricultural goods as well as manufactured products--and that includes those produced in Florida.

Mr. Chairman and Members of the Committee, thank you for your time and attention. I would be pleased to answer any questions you may have.

# Economic Council of Okeechobee

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Okeechobee, FL 34973

(813) 467-0200  
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July 31, 1993

Committee on Agriculture  
U.S. House of Representatives

Dear Chairman, Committee Members,

Thank you for your interest in holding this hearing on N.A.F.T.A. and providing the opportunity for the Florida Agricultural interest, as well as the public to comment today.

The Economic Council of Okeechobee, that I represent, position on N.A.F.T.A. is quite simple:

1. N.A.F.T.A., as well as all free trade agreements can be positive for the overall economy of the United States.
2. Protectionist trade practices all too often are counter productive for the United States economy. The economy today, is in fact, global and the U.S. Business Community can compete, as long as there is a level playing field.

As you are well aware, Florida's agricultural producers are concerned that N.A.F.T.A. will have an adverse impact, especially on the winter fruit and vegetable segments. The main issue is the labor cost differential and the added cost of production, environmental regulation has on Florida growers in comparison to Mexico.

Realizing both labor cost and environmental regulations are difficult to impose, and for practical purposes impossible to enforce on other countries, we strongly support necessary side agreements to N.A.F.T.A. The cost of agricultural production in Florida is increasing every year, resulting from environmental protection measures.

Florida Agri-Business is struggling under the burdens of environmental regulation now. If N.A.F.T.A. creates a vehicle for Mexican growers to market many of their fruit and vegetable crops in direct competition to Florida growers, at cheaper prices; it will place many segments of Florida Agri-Business at risk.

300 N.W. 5th Street, Suite 318, Okeechobee, FL 34972

We support the Florida Farm Bureau position on N.A.F.T.A. and ask you consider very seriously their concerns.

As an economic development professional in rural Okeechobee County, much of my work evolves around Agri-Business. Agri-Business is the largest segment of our County's economy.

Rural Florida Counties have not experienced the historical population growth patterns that many Florida Counties have. In Florida today, 82% of the population resides in 18 of the 67 Florida Counties. Agri-Business provides over half of our total economy in Okeechobee. Our future depends on agriculture remaining viable and being able to compete with imports.

I have witnessed, first hand, how environmental regulation can adversely impact Agri-Business. Environmental protection measures reduced the dairy industry in our community from 42 dairies to 23 in a 30 month timeframe. The adverse impacts do not stop there, it multiplies down through support industries, i.e., feed, trucking, to the entire private business sector i.e., retailing, services, etc.

The net result is an annual loss of over 30 million dollars to the local economy and unemployment rate, twice the national average.

Future economic development in Florida's rural agricultural based counties, is founded on the viability of the agriculture sector. Economic development hinges on our ability to create value-added clusters of firms for processing, shipping and distribution of agricultural and related products.

If N.A.F.T.A. jeopardizes the viability of Florida agriculture, it will put at risk many of rural Florida's communities as well.

Thank you for this opportunity to speak to you today and we are looking forward to N.A.F.T.A. providing Florida Agri-Business an equitable and level playing field.

Frank Marsocci  
Executive Director  
Economic Council of Okeechobee

JULY 31, 1993

Presentation to the House Committee on Agriculture

My name is George Cooper. I live at 2123 S. W. 21st Street, in Okeechobee, Florida. I have been engaged in the Farm Equipment business for thirty-five years. The fact that is most ignored seems to be that agriculture is a basic industry and everything else is an enhancement to that basic industry. Our economy cannot survive on just the enhancements.

We cannot allow our agriculture of the State of Florida to move to Mexico. It became evident to the residents of South Dade County after Hurricane Andrew that farming was the only industry that was able to come back and function at near normal levels in a short period of time.

No other country in the world would consider letting their agriculture base move to a foreign country. The reason that the people of the U. S. don't take this action seriously is, there's never been a time when the shelves of our supermarkets have been empty. In the countries of Europe, the people can remember times when there was no food to buy.

Agriculture is dependent upon climate, both meteorological and political. Today we are discussing the effects the political climate will have on American agriculture.

Our political leaders are suffering under the delusion that the North American Free Trade Agreement will suddenly create a large middle-class in Mexico which will be a market for products made in the United States. Not so. One only has to drive across the border to realize that poverty in Mexico is an attitude created by a social system of Have's and Have- Nots. We are not going to change that system by sending twelve and fifteen dollar- an- hour American jobs to Mexico to become one and two dollar- an- hour Mexican jobs.

I do not believe that we can decimate our middle class, who pay most of the taxes in the U. S., by sending American jobs to Mexico. Can we ever expect them to purchase enough of our products to compensate for jobs and tax base lost in this country?

The economy of our country has been based on good-paying jobs for the middle-class, and we are seeing a continual eroding of this job base. Our country is having great difficulty now finding jobs for our young people. Agriculture is the largest and one of the few basic industries that the State of Florida has. In order for our economy to survive we must have a strong viable agriculture.

Who stands to benefit the most by this agreement? The middle class of America? As my kids say, "NOT"

Robert Coker  
Vice President  
U.S. Sugar Corporation

Good morning, Mr. Chairman and distinguished members of the Committee. I want to add my welcome to all of you for taking the time to come to Orlando on this warm July morning to hear the concerns of our citizens on this very important matter. We are very appreciative, Mr. Chairman, that you personally came here to demonstrate your concern for Florida agriculture as the debate continues on the North American Free Trade Agreement.



We believe it is especially important that you hear from Florida citizens on this matter because our state will be significantly impacted by the treaty' as it is currently drawn.

Many of the people in this room this morning have come a long way from Florida's many farming areas to express to the committee their genuine concerns. They are worried about keeping their livelihoods and their homes as they face the possibility of unfair competition from our Mexican neighbors, because of the proposed NAFTA agreement.

I represent the nearly 2,800 employee owners of United States Sugar Corporation. For more than 60 years we have been farming and raising our families in the agricultural area south of Lake Okeechobee. Our principal business is sugarcane production and processing. We also are in the vegetable and citrus businesses.

The area we farm contains some of the richest farm land in America. Over the years we have become very efficient and productive in our work. We highly value our employees and they receive many mandated benefits that make the American worker among the best paid and treated of workers anywhere in the world. We have been operating in a constantly changing environment and have continuously updated our practices to comply with increasing regulation and environmental concerns.

Just recently we reached agreement with the state and federal governments that our industry will be paying more than \$300 million dollars to help clean and preserve the Florida Everglades. The regulations we must comply with regarding water quality and use of pesticides in our farming operations are among the strongest in the world. And, I can assure you, those regulations are strictly enforced.

We are aware that our brethren from Mexico have made great strides over the last few years in improving environmental and labor conditions in their country. We know they are trying very hard to emulate conditions in the United States. But, I believe, every reasonable person understands this is going to be a difficult and prolonged out transition.

Under those circumstances, Mr. Chairman, the farmers in Florida, especially those involved in vegetables, citrus and sugarcane, are not going to be competitive with the Mexican farmer under the terms of the current treaty. And that will inevitably mean that thousands of jobs of Americans in Florida, at least, are going to be forfeited.

We are for free trade, Mr. Chairman. But, we are also for fair trade. And, we are for protecting America's access to the safest, highest quality fresh food anywhere in the world.

There are more than 40,000 people in South Florida whose jobs depend on farming. It represents an economic impact of more than \$1.5 billion dollars.

Mr. Chairman, we are here to ask you to protect those jobs. To assure the people who have devoted their lives to honest, hard work that they will not become a new statistic of unemployment because of government policy.

We know you share these concerns, Mr. Chairman, and are confident that you will do everything in your power to help us.

Thank you very much for your time and attention.

STATEMENT OF CHERYL WATERS  
N.A.F.T.A. HEARING  
ORLANDO, FLORIDA  
JULY 31, 1993

GOOD MORNING. MY NAME IS CHERYL WATERS AND I FARM 2800 ACRES OF SUGARCANE IN PALM BEACH AND GLADES COUNTIES. MR. CHAIRMAN, THANK YOU FOR HOLDING THIS HEARING SO THAT FARMERS LIKE ME CAN BE HEARD.

MR. CHAIRMAN, I WANT TO PERSONALLY THANK YOU FOR YOUR EFFORTS OVER THE YEARS TO KEEP THE U. S. SUGAR INDUSTRY VIABLE. THROUGH YOUR HELP, MR. LEWIS' HELP, AND EFFORTS BY SUBCOMMITTEE MEMBERS WE HAVE BEEN ABLE TO KEEP THE PROGRAM SO VITAL TO US.

EFFORTS TO KEEP THE PROGRAM HAVE BEEN SUBSTANTIAL. NOW WE HEAR THAT U. S. NEGOTIATORS HAVE NEGOTIATED US OUT OF EXISTENCE IF NAFTA, AS WRITTEN, IS SIGNED INTO LAW. WE HEAR THAT SIDE AGREEMENTS ARE BEING CONCLUDED ON LABOR AND ENVIRONMENT. WE USED TO HEAR THAT THERE WAS A SIDE AGREEMENT ON IMPORT SURGES. NOW WE ONLY HEAR ABOUT LABOR AND ENVIRONMENT. **WHAT HAPPENED TO IMPORT SURGES?**

FACED WITH UNCERTAINTIES IN PAST YEARS, MR. CHAIRMAN, THEY WERE NOTHING COMPARED TO THE POSSIBILITY OF NAFTA. WE ARE AFRAID AND NEED YOUR HELP.

7/31/93

July 31, 1993

Testimony of Russell Kilpatrick  
Rt. 2 Box 3  
Moore Haven, Florida 33471

Speaking on behalf of the Glades County Cattlemen's Association  
and as President of the Glades County Chamber of Commerce

My name is Russell Kilpatrick. I am a 5th generation Florida cattle rancher. My family has ranched in Florida since the 1830's and a first generation sugar cane farmer.

I am also speaking today as an officer on the Glades County Cattlemen Association and as the President of the Glades County Chamber of Commerce.

I appreciate the opportunity to be here today to present views of Myself and the organizations that I am speaking for.

The National Cattlemen's Association does not represent my feelings about N.A.F.T.A. . The National Cattlemen's Association Directors are made up of cattle feeders and cow-calf operators. It seems there are more feeders on the board of directors than cow-calf operators.

This agreement is probably good for the feeders because it will give them steady cheap supply of feeder calves. These cheap feeder calves will drive down the price feeders have to pay to cow-calf operations like mine.

I cannot compete with Ranchers in Mexico who pay their workers only a fraction of what I have to pay.

I Cannot compete with Ranchers in Mexico who dont have the tremendous expense of mandated Governmental taxes and policys. For example: Workman comp, matching Social Security. D.E.R. regulations, O.S.H.A and Water Management regulations.

What about the risk of bovine TB and other Diseases that we have under control in this country but are still a problem in Mexico? Can you assure me that these diseases will not be re-introduced in this country with the influx of cheap feeder calves?

The Ranchers in Mexico are still using animal health products that were banned here years ago because they posed a health or environmental risk.

What kind of impacts will these banned products have on food safety in this country?

The Glades County Chamber of Commerce has already had a first hand experience with a business moving to Mexico. We had a local fishing lure manufacturer sell out to a national Company several years ago. This company employed 25 local people. Several months ago they advised the employees that they could no longer stay in business in the United States, because the labor was costing \$5.00-\$6.00 per hour and they were moving to Mexico where the cost would be around \$2.00 per hour.



Presently there are about 18-20 people looking for a new job and as small as Glades County is a job is hard to find.

Mr. Chairman I Thank you for the opportunity to appear before this Commitee.

In closing I would like to say that on a level playing field the Florida Cattlemen can compete with anyone. Please level the Playing Field.

Leroy Baldwin, President  
3660 N.W. 56 Street  
Ocala, Florida 32670



Joseph Barthle, Vice President  
Post Office Box 6  
San Antonio, Florida 33576

Hugh Dailey, Treasurer  
Sun Bank of Ocala  
Post Office Box 310  
Ocala, Florida 32678

Dr. Roberto Parajon, Secretary  
c/o Florida Department of  
Agriculture & Consumer Services  
Room 412, Mayo Building  
Tallahassee, Florida 32399-0800

FIATC

## Florida International Agricultural Trade Council

July 27, 1993

RE: Florida Field Hearing - NAFTA

ATTN: XAVIER EQUIHUA  
FAX (202)225-0970

I am president of Florida International Agriculture Trade Council and past president of Florida Cattlemen's Association. I am representing both of these organizations. We are opposed to the Mexican Free Trade Agreement in its existing language. Through the years many of our most costly diseases ( fever ticks, brucellosis, TB, screw worms, etc.) and pests ( fire ants, African killer bees, etc.) have all migrated into the United States through Mexico. With our stringent health system of today, we still have had incidents of TB and screw worms coming into the United States through Mexico. We have spent literally billions of dollars eradicating these diseases and pests over the past 65 years. We certainly feel that the border between the United States and Mexico needs to have far more rigid health checks than it has today. As far as fruits and vegetables that are grown under very different regulations than we have in this country, how can we even begin to believe that these products will be safe for human consumption. We have not been able to use DDT in this country for years, or to fertilize with human waste. The first message you get when planning a trip to Mexico is "don't drink the water and don't eat any fruits or vegetables unless they have been thoroughly cooked." These are some of the reasons that the playing field is far from level. The American farmer provides the safest, healthiest food supply on earth today. But if food comes in from Mexico that is not produced under our standards, and causes some of our people to become sick, the American farmer will catch all of the blame. Today our country buys its food for a smaller percentage of its income than any other nation on earth. But if we let a segment of our agriculture in this country be eliminated because the playing field is so unlevel, we'll certainly find in a hurry that we can be in jeopardy of our economical food prices. An example - limes were \$8.00 per box before Hurricane Andrew hit Florida last year, wiping out the lime crop. Mexico immediately increased the cost to \$24.00 per box of limes. We would like to urge this committee to have the wording changed in this agreement to make it possible for American agriculture to be able to survive and to continue producing the safest, healthiest, most economical food supply in the world.

Respectfully submitted,

*Leroy Baldwin*  
Leroy Baldwin  
President, FIATC

STATEMENT OF MOYE BISHOP  
ORLANDO, FLORIDA  
NAFTA HEARING JULY 31, 1993

MR. CHAIRMAN AND OTHER COMMITTEE MEMBERS, THANK YOU FOR THE OPPORTUNITY TO SPEAK ON A MUCH DISCUSSED SUBJECT--NAFTA. FOR A LONG TIME WE IN THE AGRICULTURE COMMUNITY HEARD MENTION OF IT BUT IN THE PAST YEAR WE HAVE HEAD A LOT ABOUT IT. AS I AM SURE YOU KNOW, MEXICO AND FLORIDA ARE ON APPROXIMATELY THE SAME LATITUDE AND HAVE THE CAPABILITY OF PRODUCING SIMILAR AGRICULTURAL PRODUCTS.

THE DIFFERENCE IS THAT MEXICO PLAYS BY A DIFFERENT SET OF RULES. MEXICO SAYS THEY HAVE STRONGER ENVIRONMENTAL STANDARDS THAN THE U.S. THE PROBLEM IS THEY DON'T ENFORCE THEM. THEY SAY THEY CAN GROW CHEAPLY AND THAT IS TRUE SINCE THEY DON'T ENFORCE STANDARDS AND PAY THEIR WORKERS FAR LESS THAN U. S. WORKERS.

I THINK WE ARE ALL COMPASSIONATE TO THE PLIGHT OF MEXICO;  
HOWEVER, WE DON'T FEEL IT'S FAIR TO SACRIFICE OUR  
STANDARD OF LIVING TO ELEVATE THEIRS.

MR. CHAIRMAN, I BELIEVE A STRONG LOOK AT NAFTA IS IN  
ORDER. AT THE VERY LEAST, SIGNIFICANT CHANGES MUST BE  
MADE IN THE AGREEMENT RELATED TO LABOR, ENVIRONMENTAL  
AND FOOD SAFETY REGULATIONS. YOU MUST ALSO ADJUST THE  
U. S. SUGAR TRANSITION PERIOD. MEXICO SHOULD NOT HAVE  
VIRTUALLY UNLIMITED ACCESS TO OUR MARKET.

AGAIN, THANK YOU FOR THIS OPPORTUNITY;

7/31/93

STATEMENT BY JOYCE SIBSON DOVE, DEPUTY DIRECTOR OF THE FLORIDA INTERNATIONAL AFFAIRS COMMISSION BEFORE THE HOUSE COMMITTEE ON AGRICULTURE, ORLANDO, FLORIDA, JULY 31, 1993

I am honored to appear before the House Agriculture Committee of the United States Congress to express support for the North American Free Trade Agreement. As this country moves toward the 21st century, NAFTA and its potential extensions will be the means by which the nation's economy flourishes. As this state moves toward the 21st century, NAFTA will be the means by which the salaries of the workers in this state will climb out of the bottom of the state-by-state comparison charts.

Florida is working hard to increase the standard of living and salaries of its workers: the Chiles Administration has initiated numerous substantive programs which will support that increase, including the innovative Florida International Affairs Commission and Enterprise Florida. These initiatives are designed to make the nation's fourth largest state and second largest bank deposit holder move up past the 50th percentile in average wages.

Currently, however, Florida provides massive amounts of minimum wage jobs in tourism-related service industries and agriculture which hold little chance of advancement and no chance of becoming higher paying jobs. In addition, the Florida economy absorbs over 900 new residents per day, residents whose average age has now dropped into the low 30's as opposed to the commonly-held perception of Florida's retirement age population.

These numbers are the primary reason why we are pleased to note that trade with Canada and Mexico supported over 53,000 jobs in Florida last year: these jobs are not minimum wage, non-

advancement positions but higher paying jobs which statistics show pay an average of \$11.32 per hour, over double minimum wage. (FDOC, July, 1993; USTR, 7/16/93) These numbers are reflected nationally in an increase, based solely on trade with Mexico, in over 400,000 jobs since 1986. (USTR, 7/16/93) That increase in jobs from now until 1995 is anticipated to be 200,000 by 1995. (USTR, 7/16/93)

Florida and its citizens have extensive evidence of the effect of international trade on a state's economy. Over 500,000 people here work in international trade jobs; their income totals over \$11.6 billion. Comparable wage totals are not found in other sectors of Florida's economy.

Over 10% of these people already are directly involved in the Florida/Canada/Mexico trade industry which represents over 8% of Florida's trade. We have already enjoyed the beneficial effects of the US/Canada Free Trade Agreement and a substantial increase in the number of Canadian tourists and winter residents.

The success in the Florida's future depends on expansion of the influence of Florida products and services. Those who have visited Mexico know that although all areas of their economy have been effected by the administration of President Carlos Salinas de Gotari, many areas of the economy need technical assistance and joint venture arrangements with U.S. partners.

Florida has the potential of offering such assistance, especially in the area of agricultural support services and machinery. Informed visitors to the Mexican countryside have noted that their farming methods and their yields are significantly

behind our capabilities. In addition, their growing seasons are different than ours, which could facilitate joint venture agreements in areas like limes and grapefruits. Such opportunities bring financial incentives and real job enhancements to the people who are trained in these areas.

Such opportunities could add more to the \$6 billion agricultural sector of this state and the \$32 billion dollar trade sector than any other single factor could promise to do without the passage of NAFTA.

In short, Mr. Chairman, that "giant sucking sound" that we hear so much about may be the sound of money being sucked out of the pockets of Florida workers if NAFTA does not pass.

ABBREVIATIONS USED IN THIS TESTIMONY:

FDOC Florida Department of Commerce, Tallahassee, Florida

USTR United States Trade Representative, Washington, D.C.

Statement by Joyce Sibson Dove



CATTLE • CITRUS • SUGAR CANE • TIMBER

ROUTE 2, BOX 175  
 CLEWISTON, FLORIDA 33440  
 TEL : (813) 983-5111  
 FAX: (813) 983-5116

JOE A. HILLIARD

JOE MARLIN HILLIARD

Testimony from Joe Marlin Hilliard  
 Farmer  
 Clewiston, Florida  
 Before the House Agriculture Committee  
 Orlando, Florida  
 July 31, 1993

Mr. Chairman, thank you for the opportunity to talk with you today about a subject near and dear to both of us - American agriculture. You have been our leader through thick and thin and for this, I thank you and my family thanks you.

Mr. Chairman, my name is Joe Marlin Hilliard and I am involved in sugarcane, citrus, cattle, timber and ornamental agriculture. Our operation, while larger than many, is a family-owned, family-operated business which was started in 1906.

I am very concerned, however, that if the North American Free Trade Agreement (NAFTA) is adopted as it is presently written, my children will have to explore other ways to make a living.

We all know that Mexico has lower wages, fewer environmental and labor standards, and negligible enforcement of the standards they profess to have. I am concerned that raising Mexico's wages will drag ours down. I don't want that to happen to my 200 employees.

The sugar section of NAFTA is a disaster as written and only a miraculous side agreement can save us. As a cattleman, I am concerned about Bovine TB and other diseases we have under control in the US but are still existent in Mexico. Citrus faces similar problems as do ornamentals.

The inequities contained in this proposed agreement are too numerous to go into great detail here, but I can assure you, in my mind no good will come from this agreement as constructed.

On behalf of my family, my employees and farm suppliers in south Florida, please be aware of our concerns and address them in a manner which will give my family the ability to carry on.

Joe Marlin Hilliard  
 Hilliard Brothers of Florida, Ltd.  
 Route 2, Box 175  
 Clewiston, FL 33440-9429  
 July 31, 1993



WRITTEN TESTIMONY PRESENTED TO  
HOUSE AGRICULTURE COMMITTEE  
July 31, 1993 · Orlando, Florida

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My name is Terry Jackman and I am a cattle and cane farmer south of Lake Okeechobee. I oppose NAFTA the way it is now written.

I don't feel like it's fair that I have to compete with a country that pays many workers \$2.00/day for farm labor and doesn't have to pay taxes, insurance, workers' compensation and other expenses the way we do in the United States. Also, I don't feel like it's right for Mexican farmers to be able to use cheaper and less safe insecticides and worm medicines that have been taken off the market in America, then be allowed to ship their beef and produce back to us for us to eat.

I don't think it's fair that I have to spend the money to build an 80-acre retention pond for environmental compliance that will cost me \$121,000 to be built by a contractor, when a similar operation in Mexico does not have to do these things. (Right now, I'm having to do the work myself because I cannot afford to pay the price to have the work done.) And that 80 acres will no longer be productive, leaving me 1220 acres of land to farm out of 1300 acres. Yet I still must pay taxes and be responsible for the 80 acres of land I cannot use, not to mention the costs incurred in pumping the water into the pond (this water cannot enter the pond by gravity any more, it must be pumped).

I'm for free trade if it will benefit America, but I can't see where this will benefit me in the cattle and cane business. I am a second generation farmer, I inherited the business from my parents, and I would like to be able to pass this business along to my son.

**STATEMENT  
JOHN I. WHITWORTH, III  
WHITWORTH FARMS**

**Orlando, Florida  
July 31, 1993**

**NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)**

*Mr. Chairman, members of the committee, good morning. My name is John Whitworth, III. I represent Whitworth Farms, which is a family owned vegetable farm located on the southeast coast of Florida in Palm Beach County. My family has been in the farming business since 1950, and I am a sixth generation Floridian.*

*It has been a growing concern of ours how the North American Free Trade Agreement will affect the agriculture industry in South Florida, of which I am extremely proud to be a part. Farming in Florida is an extremely expensive and complicated business. Right now, in the agricultural business in Palm Beach County, we regularly have to deal with over fifty (50) different government agencies on everything from our workforce, to our use of agricultural chemicals, to the use of our land, to the use of water, and more. Dealing with these agencies, and the laws and regulations they administer, is very costly and time consuming. I can't just be a farmer. I also have to be an expert on labor law, immigration law, environmental regulations, the list goes on.*

*If a grower in Mexico doesn't have to deal with these regulations, or if they're not enforced, then his costs of production are significantly reduced. And, that amounts to a subsidy for that grower. We, as growers in Florida, would like to see side agreements to the NAFTA with Mexico, our biggest competitor, which will ensure us that they will have to conform and abide by the same safety regulations, federal and state wage and tax regulations, workers' compensation and other insurance, and pesticide regulations that we have to comply with day-in and day-out.*

*The existing tariffs are the only way we have to level the playing field, and even the tariffs are insufficient to do the job properly. Removing the tariffs gives growers in Mexico an even greater competitive edge, because their land is cheaper, their labor is cheaper, and they can use pesticides that we don't allow here. If we in Florida have to meet pesticide, food safety, labor and environmental requirements, why can't we negotiate side agreements that require Mexico to enforce the same regulations at the same level as they are here in the United States? Why can't we have a price-based safeguard mechanism for our perishable crops? I don't see any evidence to date that shows that our concerns are being adequately addressed in the side agreements.*

***If these changes can't be made, the South Florida farmer will soon go from an endangered species to an extinct breed that will cease to exist. There will be no future for the South Florida farmer and his employees. Thousands of workers and their families will be without jobs. Who is going to support them? My business is not like a factory. I can't pick up my land and move it to Mexico.***

***If we can't make the changes necessary to make this agreement fair to the Florida farmer, then I think the Congress should vote it down.***

***Mr. Chairman, thank you and the committee for the opportunity to speak.***

# NORTH AMERICAN FREE-TRADE AGREEMENT

WEDNESDAY, SEPTEMBER 29, 1993

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The committee met, pursuant to call, at 2:05 p.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives English, Glickman, Stenholm, Volkmer, Penny, Sarpalius, Long, Condit, Peterson, Dooley, Minge, Inslee, Barlow, Pomeroy, Holden, Baesler, Thurman, Bishop, Farr, Lambert, Roberts, Emerson, Gunderson, Lewis, Smith of Oregon, Alard, Barrett, Ewing, Doolittle, Kingston, Goodlatte, Dickey, Pombo, Canady, and Everett.

Staff present: Joseph Muldoon, associate counsel; Gary R. Mitchell, minority staff director; William E. O'Conner, Jr., minority policy coordinator; John E. Hogan, minority counsel; Dale Moore, minority legislative coordinator; Glenda L. Temple, clerk; Anita R. Brown, Xavier Equihua, and Lynn Gallagher.

## OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. The committee will be order. The Committee on Agriculture meets this afternoon to review the so-called supplemental agreements to the North American Free-Trade Agreement. It is our distinct pleasure to have with us today three top officials from the administration, Agriculture Secretary Espy, Ambassador Kantor, and EPA Administrator Browner.

The purpose of this hearing is to help us better understand what is proposed in NAFTA and the supplemental agreements, how it will promote agricultural trade, improve environmental quality on both sides of the border, and improve economic security for our Nation.

That is what this hearing is all about. Frankly, most of the American public does not really understand what NAFTA does and does not do. Today we will try to get some of the questions answered, hopefully, from some of our guests that we have here today.

For that reason, I have also asked officials from the Customs Service and the Labor Department to be present today to answer more technical questions members may have about such issues as the enforcement of rules of origin under NAFTA and labor issues, particularly migrant farmworkers.

Today marks our ninth hearing solely on NAFTA issues since 1991 and our third hearing on the subject this year alone. NAFTA deserves this kind of emphasis because of its importance and its implication to all of American agriculture.

In the coming weeks this committee will be intensely focused on NAFTA. We will hold hearings in the coming weeks to allow a broad cross-section of groups interested in NAFTA to testify. If time permits, I am still hopeful we can hold one or more field hearings outside of Washington.

On a parallel track we will be involved in the informal drafting of the implementing legislation for NAFTA. This is very important. We will schedule a public walk-thru session in October to acquaint members and the public with the details of NAFTA within this committee's jurisdiction.

This will be followed by a mock markup of the implementing legislation. The committee will also participate in the mock conference with the Senate to finalize the implementing legislation before its introduction under the fast-track process.

To help guide us in this process, last week and again today, I am extending an open invitation to all interested groups to submit their written comments and suggestions on what should be included in this implementing legislation. Just address your letter to me, Kika, K-I-K-A, even the Pope calls me by that name, House Agriculture Committee, 1301 Longworth House Office Building, Washington, DC, 20515.

All of us know that NAFTA is one of the most important votes any of us are going to cast in our congressional careers. Two weeks ago President Clinton eloquently framed the issue before us. I think his remarks merit repeating here: "In a fundamental sense, this debate about NAFTA is a debate about whether we will embrace these changes and create the jobs of tomorrow or try to resist these changes, hoping we can preserve the economic structures of yesterday."

That is quoting President Clinton. I believe the President is right that we should not be afraid of change and the opportunities before us. It makes sense for our Nation to work with our neighbors to create a better economic future for them and for us. NAFTA is a good deal for American agriculture and our country and I think we ought to approve it.

As all of us know, there are differing opinions for a multiplicity of reasons within Congress and within this committee. The intent of this session is to begin the process so we can get questions answered by the responsible members of the administration that have worked and will continue working on this program for the future.

Mr. Roberts.

#### **OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS**

Mr. ROBERTS. Thank you, Mr. Chairman.

I can remember in the not-too-distant past asking Secretary Madigan a specific question on a particular issue on what was happening in the USDA. He replied he did not know, he was spending so much time testifying before the Congress that he had not had time to go back to the office.

In that regard, I want to thank the witnesses for their time. I appreciate the combined effort on behalf of NAFTA. I would like to associate myself with the comments made by the chairman.

I have a prepared statement, Mr. Chairman. I am just going to ask that it be put in the record.

I want to address a concern that I have. I will try to make it very brief. It appears from the vote count, or the alleged vote count, in the Congress, that obviously NAFTA is in trouble.

I think the issue that has to be considered in part is what happens if NAFTA does not pass. I am not saying it is a panacea. I am not saying it is a disaster. But what happens to our commodity prices; what happens to agriculture; what happens to rural and smalltown America if we cannot rely on increased exports and trade?

If you want to look at the trade picture now, you have the Soviet Union, or the former Soviet Union, and we have country after country, i.e., the individual Republics coming to Kika's office and to mine literally begging for credit by which they can buy our commodities. So that is a \$2 billion annual market that may or may not be lost.

We have a situation in China where the State Department and other folks in this Congress seem to indicate that they can be a good trading partner, but we have some human rights concerns and some other concerns. So it looks like for the most part that China will be buying from our competitors.

Obviously Japan is a very good customer, but they are a very tough customer. So where are we going to sell our product? We also have in the background a foreign export trade program that is not working well. I say that having been a coauthor of the legislation down through the years.

In wheat we used to have almost 50 percent of the market share. We now are somewhere between 27 and 32 percent. The more we set aside in terms of a supply management program, the more our competitors increase their production by more than we set aside and we become the residual supplier. That is a dead-end street.

What kind of a dead-end street? A year ago the price of wheat at the county elevator in Dodge City was \$3.50. Now it is about \$2.50. The same is true of corn, cotton, soy beans and other commodities, although I don't have the specific figures right off the top of my head.

Secretary Espy has been asked in the past to simply raise the loan rate, increase the target price, move the safety net up. He cannot do that. We have limited budget dollars that were passed in the reconciliation bill.

Administrator Browner will certainly have to implement all of the inevitable regulations that come with clean air and clean water, endangered species and Lord knows what else that this Congress has passed. She has to do that. She is the Administrator. She will try to do it as best she can. That is an increased cost to the producer in terms of the regulations.

Commerce Secretary Brown, according to the Reuters News Agency, has pointed out farm products comprise only 10 percent of the Nation's exports, yet receive 80 percent of the Government's export promotion funds. He warned that farm interests have to ex-

pect a shake-up. We are misallocating our resources. We have to change that mix. We have an export control system that is out of hand. There is a new policy that will be unveiled in the White House as of today.

If we don't pass NAFTA and we have the budget restrictions that we have and increased regulatory costs and a shake-up in terms of our promotion program, where on Earth are we going to sell our product? How can we get the prices at the country elevator up. How can all the speeches we are making here with regard to farm income be the best rural development?

How can that happen? I don't know.

My question to the opponents of NAFTA, and there are many, and I share their concerns: Who is going to accept the responsibility if NAFTA does not pass and how are we going to write a new farm program to offset the loss in terms of export volume?

What kind of a trade policy will we put together if in fact this is not the case?

Will Mr. Gephardt reintroduce the Harkin-Gephardt bill and shut down 40 percent of agriculture? I don't think that is going to happen.

So I would hope that as we go through this that at least when we say we are opposed to NAFTA we have some consideration about what on Earth we are going to do in terms of individual accountability for a farm program policy and an export policy to make up for the loss that is indicated on that chart right over there.

I am concerned about it because we cannot continue to limp along with \$2.50 wheat at the county elevator in Dodge City or any community in regards to farming. I don't mean to get that emotional, but it seems to me that we have a real question ahead of us if we do not proceed in a responsible manner.

I thank the Chair.

[The prepared statement of Mr. Roberts follows:]



## THE HONORABLE PAT ROBERTS

SUPPLEMENTAL AGREEMENTS ON LABOR COOPERATION,  
ENVIRONMENTAL COOPERATION AND EMERGENCY ACTION

SEPTEMBER 29, 1993

As I and many of my colleagues have stated, the future for United States agriculture rests in trade. And one of the best opportunities for growth in agriculture exports can be found in Mexico.

According to USDA, we can anticipate an additional \$480 million in exports to Mexico due to NAFTA. This means jobs on the farm and for businesses involved in processing, marketing and agriculture supplies. NAFTA can be good for United States agriculture and for many other sectors of the U.S. economy.

In addition to the NAFTA agreement signed on December 17, 1992, the Clinton Administration has negotiated supplemental agreements on labor, the environment, and import surges. While I support NAFTA, I am concerned that these supplemental agreements, especially those on labor and the environment, will establish another layer of bureaucracy that will act to restrict rather than expand agricultural trade.

The NAFTA agreement signed last December does requires each country to enforce its own standards related to protection of human, plant, and animal health from risk. The agreement makes it clear that NAFTA does not give any country the authority to undertake environmental enforcement activities in another country. However, the supplemental agreement on the environment does set up a Commission for Environmental Cooperation, made up of a Council, a Secretariat, and a Joint Public Advisory Committee.

Roberts, NAFTA supplementals, 9-29-93

The environmental supplemental agreement provides that any person can appeal to the Secretariat if they determine that a country is not enforcing its own laws. My concern is this supplemental agreement opens up a new avenue -- outside of U.S. courts and administrative reviews -- for registering complaints about U.S. laws. A strict process is set up that could result in fines and ultimately withdrawal of reduction of tariffs provided under NAFTA. I hope I can receive the assurances of the Secretary of Agriculture and the Trade Representative that this process will not serve to undermine agriculture trade in North America.

Similar to the environmental supplemental, the labor supplemental agreement also establishes a Labor Commission consisting of a Ministerial Council, an International Coordinating Secretariat, and three National Administrative offices. Again, resolution of disputes under this new process can result in fines and withdrawal of NAFTA trade benefits.

I remain concerned about a heavy handed bureaucracy, outside of the United States, that can negatively impact on our productivity -- not because of legitimate complaints, but by offering a forum that bypasses United States procedures for resolving differences on labor and environmental issues.

To address the concerns expressed by agriculture groups about an increase in imports that have a negative impact on domestic production, the understanding on import surges is, in reality, not a separate supplemental agreement among the United States, Mexico, and Canada.

Roberts, NAFTA supplementals, 9-29-93, page three

Instead this "understanding" reiterates the safeguard provisions of NAFTA. Additionally, a Working Group on Emergency Action is set up to consider cases of increased imports that can threaten a domestic industry. My confusion is this: it does not appear that another panel will help fruit and vegetable producers harmed by surges in imports. This is an issue -- and concern -- that should be reviewed and clarified by the Administration.

The CHAIRMAN. If there is no objection, any Member may submit a statement at this point in the record.

[The prepared statements of Mr. Sarpalius, Mr. Condit, Mr. Peterson, Mr. Pomeroy, Mr. Emerson, Mr. Lewis, Mr. Pombo, Mr. Smith of Michigan, and Mr. Everett follow:]

## Opening Statement- Congressman Bill Sarpalius

Date: September 29, 1993

I want to thank the Chairman for taking this opportunity to have a hearing on the Supplemental Agreements to the North American Free Trade Agreement. The North American Free Trade Agreement represents the first opportunity to trade openly with our neighbors in Mexico and Canada. With our global economy, it is becoming more important to open up our markets to the rest of the world. However, we also must take caution in protecting our domestic interest by examining all aspects of fair trade. It is important that we understand the workings behind this agreement as well as examining all facets affecting our economy.

Again, thank you Mr. Chairman for having a hearing on this important and controversial issue. I look forward to hearing the testimony from the witnesses.

**STATEMENT BY CONGRESSMAN GARY A. CONDIT  
HOUSE COMMITTEE ON AGRICULTURE  
HEARING ON THE NORTH AMERICAN FREE TRADE  
AGREEMENT**

**SEPTEMBER 29, 1993**

I want to thank the Chairman for holding this hearing. It is important for the Committee to examine the North American Free Trade Agreement (NAFTA). I have made my stance on NAFTA perfectly clear over the last few months and while I cannot support a trade pact that does not protect the workers of this country, I am willing to work with the Chairman and other members to disseminate the vast amount of information regarding this pact.

People on both sides of the *North American Free Trade*

*Agreement (NAFTA)* agree that there will be costs to the economy of the United States. There is disagreement over the extent of potential damage, but even supporters admit that jobs will be lost and incomes reduced. Where I come from, my district cannot afford any job losses. Not for one year or even 15 years while we wait for the Mexican economy to "catch-up" with ours and increase their standard of living.

I support free trade but first we have to have fair trade.

This isn't free or fair trade, this is managed trade or better mismanaged trade. We have huge labor cost disparities. No one can credibly argue that a \$16.00 per hour wage versus \$2.00 per day wage disparity will not act as a invitation to

relocate south of the border.

Part of fixing NAFTA with side agreements would require Mexico and the U.S. to provide for new, tougher and enforceable labor and environmental standards, agreements on internal financial regulations, and protection against sudden destructive import surges. The side agreements would also have to assure some permanent funding to pay for the cost of trade adjustment and environmental repair. However, none of these elements are in the side agreements that the U.S. government has proposed to Mexico and Canada.

The North American Free Trade Agreement is a symbol of all that is wrong with our trade accords. For workers, our trade



pacts have left them standing still, or falling behind while we continue to export jobs abroad. They see trade agreements that are more interested in quick profits rather than a long term investment-led program. For businesses, we have seen the enormous need to compete in a global market but have been shut out because they face protectionist barriers all across the globe while we continue to run a trade deficit year after year and open our markets to the rest of the world. In case after case, issue after issue, industry after industry, NAFTA is bad news for Americans.

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GOVERNMENT ACTIVITIES  
AND TRANSPORTATION

October 7, 1993

Chairman E (Kika) de la Garza  
U.S. House of Representatives  
Committee on Agriculture  
1301 Longworth House Office Building  
Washington, D.C. 20515

Dear Chairman de la Garza:

Attached are questions I prepared for the Committee hearing on the North American Free Trade Agreement on September 29, 1993. I would appreciate these questions being put into the record and sent to the appropriate witnesses for reply. Thank you for looking into this matter.

Sincerely,

GARY A. CONDIT  
Member of Congress

GAC/rg  
enclosure

## QUESTIONS FOR AMBASSADOR KANTOR

1. We often hear from NAFTA proponents that factories can relocate to Mexico with or without the treaty. Does ANY part of NAFTA change the current rules to that point where it can be the margin of difference in a relocation decision? How extensive would this be?
2. Most experts, on either side of this issue acknowledge there will be an overall short term job loss in the U.S. How long is short term? How many jobs? What kind of jobs?
3. In agriculture in California, we already suffer among the highest unemployment rate in the country. In my area, we already have lost many processing operations to Mexico and other states. What impact will NAFTA have on this?
4. Mr. Kantor, in past statements to myself, other members of Congress, and industry representatives, you have assured us that you would sit down with the Mexican government and work on an accelerated tariff schedule for wine, wine coolers, and brandy.
5. I also understand it, has also been made the home appliance and the flat glass industry. Is this true?
6. If this agreement is signed into law come January, what incentive would the Mexican government have to come back and renegotiate with the U.S. regarding these products?
7. Why is the Mexican government spending over \$25 million to lobby the Congress and the American people to support NAFTA. Put differently, what do the Mexicans see as the benefit of NAFTA to them?
8. The Administration's promotional material also states that "NAFTA will eliminate such incentives to foreign investors."

If this is true, then why does NAFTA:

- 0           Assure that plants which are nationalized will be reimbursed at market rates
- 0           Guarantee profit repatriation
- 0           Guarantee peso conversion at market rate
- 0           Take dispute settlement from Mexican courts to tri-national panel of experts.

- 0            Protect investors from ANY NATION who choose to invest there. (i.e. Japan, Korea, Germany)
9.          Countless studies have been done on the job impact of NAFTA. You cite numerous studies that show job gains; I have studies and testimony showing job losses and wage depression.

But two aspects of the studies you cite stand out -- the studies assume full employment in the U.S. and assume there will be no change in investment patterns in NAFTA is adopted.

Why should these studies be given any weight?

10.        The NAFTA promotional materials distributed by the Administration states that NAFTA will create a \$6.5 trillion market. How much of the market does the U.S. and Canada represent?
11.        Isn't the Mexican addition to this market quite small?

## QUESTIONS TO SECRETARY ESPY

1. I have heard from some of my growers about phytosanitary certificates. They are concerned that NAFTA will eliminate the usefulness of these certificates. What kind of assurances can I give my growers that phytosanitary certificate will still be applicable to produce coming into the United States if NAFTA is agreed to?
2. Could you please explain the role of the Free Trade Commission will play in dispute settlements?

## ADDITIONAL QUESTIONS FOR AMBASSADOR KANTOR

1. During a hearing held by my Subcommittee on August 2, Senator Feinstein testified about her concerns that Mexico has not demonstrated any effort to help control the border. In her opinion, that should be made part of NAFTA. She further testified that she had spoken with you about that matter and that you agreed with her concerns. What has the United States done to try to get Mexico to help control the border?
2. There seems to be a strong consensus that in the short run, adoption of NAFTA will have the effect of increasing immigration from Mexico into the United States, both legal and illegal. This is the conclusion of a variety of academics and other experts; a report issued by the Congressional Research Service; and the Office of Technology Assessment.
3. Would you please explain what the United States is doing to prepare for an expected short-term increase in illegal immigration?
4. Will any assistance be provided to local communities to help absorb the costs associated with increases in illegal immigration?
5. Over the long term, illegal immigration is expected to decline, assuming that NAFTA has the expected benefits for the Mexican economy. How long is the "long term"?
6. What additional resources will be needed to patrol the border during the implementation years of NAFTA to control the anticipated increase in illegal immigration?
7. With regard to legal crossings, what plans does the United States have for changes in staffing at the Mexican/U.S. border?
8. What changes are proposed for structural changes of border facilities to accommodate increased legal traffic resulting from NAFTA?

(The answers were not received in time for printing.)

HON. PETERSON  
OPENING STATEMENT

Mr. Chairman, thank you for holding the hearing today on the North American Free Trade Agreement. Secretary Espy, Ambassador Kantor, thank you for appearing before the Committee.

I have been a consistent opponent of the North American Free Trade Agreement as negotiated. My opposition stems not from one or two isolated trade problems but because NAFTA is a fundamentally flawed agreement. NAFTA was intended to be a trilateral agreement. Throughout the negotiations my colleagues and I insisted that the agriculture issues in the CFTA be renegotiated--as other issues were--but USTR caved into the Canadians and refused to negotiate or even pay attention to the unfair trade obstacles.

My district has been one of the victims of the trading inequities that were negotiated into the CFTA. NAFTA only holds the promise of more economic distress for not only my district, but the entire country.

Free trade for wheat and barley in the Canadian Agreement translated to free trade for Canada into the U.S., with a maintenance of their transportation subsidies, and no market access for U.S. wheat and barley into Canada. Ambassador Kantor, I met with you weeks into your appointment, with several other wheat-state members. We repeatedly asked you to address Canadian Free Trade Agreement problems. Your letter of February 12 stated, "The grains issue will be on the agenda for my next meeting with Minister Wilson in mid-March...I will continue giving this my close personal attention...I will continue to work with you..." That's the last I heard from you on this issue, except for your decision to extend the Export Enhancement Program to Mexican sales, until you resurrected it to gain support for NAFTA. Just this morning, I read a news media report that the administration held a meeting yesterday to try to convince certain Members of Congress that the Canadian grain issue will be

resolved if they vote 'yes' on NAFTA. If this correct?

I have been trying to work with your administration, the past administration, my colleagues, and the Canadian government since 1991 to resolve this issue. I sponsored legislation for end use certificates and was opposed by USTR, USDA, and the Administration. When we met you did not extend support for end-use but you have recently indicated that may be part of the solution to our trading problem with Canada and for protecting the integrity of our export programs. Why this change in attitude?

What about the sugar issue? I hear from a reliable source that you are meeting with Senator Breaux today to fix the sugar provisions of NAFTA. Is this true?

Or the barley issue...under the rules of origin, maltsters will be able to buy Canadian malting barley, process it in the U.S. and sell it to Mexico against the U.S. quota. Are they going to be left out of the NAFTA fix because they represent a small commodity from a limited number of states?

I have said all along that NAFTA will not pass on its own merits. You are confirming that by attempting to bribe members through special deals in the implementing language. I consider that an offensive way to make public policy, and another action that will further weaken the American public's trust in the political process.

It's time for us to deal with Canadian problems just because it's the right thing to do. It's time to own up to the inadequacy and inequity of NAFTA and renegotiate the agreement. And finally, it's time to negotiate trade agreements that promote economic expansion while requiring harmonization that parallels our standards.

Thank you, Mr. Chairman.

## QUESTIONS FROM HON. PETERSON:

1. How exactly are you planning to fix the Canadian/U.S. wheat problem? In addition to the Emergency Section 22, are you looking at reciprocal end use certificates?, renegotiations on the crow's nest subsidy and price transparency?
2. Have you worked through this with Trade Minister Wilson? What is the reaction to solving these problems with Canada over the long term?
3. I know you have indicated that there is not a relationship between the Canadian grain fix and NAFTA but will you include the fix in the implementing language?
4. What about the other commodities? Are you proposing a fix for sugar and barley?

(The answers were not submitted at time of printing.)



BILL EMERSON  
MEMBER OF CONGRESS  
1ST DISTRICT MISSOURI

HOUSE COMMITTEE ON  
AGRICULTURE  
HOUSE COMMITTEE ON  
PUBLIC WORKS AND TRANSPORTATION

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STATEMENT OF CONGRESSMAN BILL EMERSON  
BEFORE THE HOUSE AGRICULTURE COMMITTEE  
REVIEW OF THE NORTH AMERICAN FREE TRADE AGREEMENT  
SEPTEMBER 29, 1993

Mr. Chairman, I wish to thank you and our Ranking Member, Mr. Roberts, for holding this public forum today to discuss a matter vitally important to American agriculture. The future trade relationship with our neighboring global trading partners has never been more critical.

Certainly, world trade is the key to the future of American agriculture. Maintaining our current farm markets is no longer good enough for the average American farmer. The future economic prosperity of the men and women who ensure the sustained production of food and fiber for the world hinges on our ability to create and expand new markets around the globe and particularly -- in our hemisphere.

Most of our nation's farmers have been greatly encouraged by our government's efforts to liberalize agricultural trade with our foreign trading partners. However, in reviewing this landmark trade agreement, we must ensure that this pact truly benefits the many agricultural producers of this nation -- not undermine already fragile domestic markets.

For example, I do have some serious concerns with the cotton and sugar provisions of the NAFTA text. I believe it is incumbent upon the Administration to ensure that Section 22 protections are not circumvented or unnecessarily undermined. Domestic cotton and sugar producers deserve to be heard and as the Ranking Member of the General Farm Commodities Subcommittee, I will closely scrutinize the short- and long-term impact of this trade pact on the economic livelihood of our Section 22 industries.

I do look forward to working with this Committee and the Administration in order to open new markets and expand old ones. Likewise, I am encouraged by the prospects of a closer trade relationship with Mexico and the benefits that American agriculture may gain from such an agreement. In mid-1990 we won the Cold War. In 1991 we won the Persian Gulf War. Now, we must win the global trade and economic war. I stand ready to assist the American farmer *and our overall economy* toward that goal.

**Statement of the Honorable Tom Lewis of Florida  
House Committee on Agriculture  
Review of the North American Free Trade Agreement  
September 29, 1993**

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Mr. Chairman, at the beginning of this year, I initiated a good faith effort between the Florida Congressional Delegation, Florida's agricultural industry, and the office of the United States Trade Representative as negotiations began on the supplemental agreements to the NAFTA. It was my sincere hope that the supplemental agreements would contain the proper safeguards for agriculture in Florida and guarantee fair competition for this most vital industry. However, to say that I was disappointed by the NAFTA supplemental accords would be an understatement. The side agreements addressed none of Florida's agricultural concerns. This has guided my decision to fervently oppose the agreement, and solidifies my belief that the NAFTA is fundamentally flawed in respect to Florida agriculture.

The problems faced by Florida agriculture are not new. I, along with the agriculture industry, have presented the need for a price-based safeguard mechanism for winter vegetables, fresh citrus, and frozen concentrated orange juice, and the need for a clarification of net surplus producer to include high fructose corn syrup to both the Bush and Clinton Administration.

The negative impact of the NAFTA in Florida will extend beyond the farm, Mr. Chairman, which refutes the argument that it hardly make sense to oppose the NAFTA based on agricultural concerns in Florida. Florida's \$6.2 billion agriculture industry translates into a \$16 billion overall economic impact on the state; therefore, it certainly does make sense to oppose the NAFTA based on its agricultural effects on the state, as USA-NAFTA suggests.

The devastation caused by NAFTA to Florida will be significant, affecting real people and an important segment of the economy. Government reports issued by the International Trade Commission and the Congressional Research Service show that the fruit, vegetable, and sugar industries will lose under NAFTA. Behind tourism, agriculture is Florida's second largest industry, with an economic impact to the state's overall economy of over \$16 billion.

**Rep. Tom Lewis - Statement 9/29**

Page 2

Beyond this enormous impact to the state's economy, Florida agriculture is a major supplier for the entire nation of sugar, citrus, and vegetable production. Estimates by the University of Florida conclude that Florida agriculture stands to lose as many as 60,000 jobs under the NAFTA. The study further projects Florida's farmgate value loss under the NAFTA to be as high as \$300 million. Last minute political negotiations within the Congress will not be the solution to these devastating losses.

Mr. Chairman, I realize that many groups involved in agriculture around the United States have endorsed the NAFTA and view it as a excellent opportunity to increase their exports to Mexico. However, Mr. Chairman, Florida will not gain in agriculture like many other states. There is neither a single major agricultural organization in Florida that supports the NAFTA nor a single study done that states that Florida agriculture will benefit by NAFTA's passage.

Mr. Chairman, I would like to commend you and Mr. Roberts for having travelled to Florida and for listening to the concerns of the state's farmers. Yet, I'm afraid that the time has come and gone to listen to their concerns, and the question remains what can be done by the Administration or more importantly what will be done by the Administration at this point?

Thank you, Mr. Chairman.

CC NAFTA  
9/29

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NARCOTICS ABUSE AND CONTROL  
NORTH ATLANTIC ASSEMBLY (NATO)

October 6, 1993

The Honorable Mickey Kantor  
United States Trade Representative  
Office of the United States  
Trade Representative  
600 17th Street, N.W.  
Washington, D.C. 20506

Dear Ambassador Kantor:

I enjoyed having the opportunity to speak with you last week at the House Agriculture Committee hearing. Your forthright and open testimony was greatly appreciated.

I was particularly reassured to know the Administration was aware of each of the difficulties faced by the Florida agriculture industry.

As the citrus, tomato, and sugar industries are the first, third and fourth industries respectively to Florida agriculture, it is my sincere hope that you will negotiate additional agreements to address the concerns of each industry. Any agreements must be binding and include a price-based safeguard mechanism for citrus and vegetables in addition to a clarification of net surplus producer definition to include high fructose corn syrup.

Each of these elements are equally important to the survival of the Florida agriculture industry under the North American Free Trade Agreement. It is critical that proper safeguards be negotiated for these industries to ensure free and fair competition between the United States and Mexico.

We must have adequate and binding solutions to ALL of these problems in order for the Administration to gain any meaningful support from the Florida delegation.

Sincerely,

*Tom*

Tom Lewis  
Member of Congress

cc: The Honorable Mike Espy

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October 6, 1993

The Honorable Mike Espy  
United States Department of Agriculture  
200-A Administration Building  
14th and Independence Avenue, S.W.  
Washington, D.C. 20250

Dear Secretary Espy:

At the September 29, 1993 hearing before the House Agriculture Committee concerning the North American Free Trade Agreement you distributed a chart illustrating job creation by commodity under NAFTA.

The chart illustrated a gain of 2,697 jobs for fruits and 877 jobs for vegetables. I would like to request documentation of the methodology used in this analysis. In addition, I would like to review the breakdown of these numbers by state and by specific commodity within the fruit and vegetable categories.

As you are aware, Florida agriculture expects displacement in its fruit and vegetable industry under the current North American Free Trade Agreement. Sadly, this situation will ultimately translate into a severe loss of economic base and jobs for the second largest industry in the state of Florida.

I find it difficult to believe that any of these jobs will be created in the state that stands to lose the most in agriculture under this agreement. Your clarification of this issue will be helpful in dispelling any notion that the Florida fruit and vegetable industry stands to benefit in terms of jobs under NAFTA.

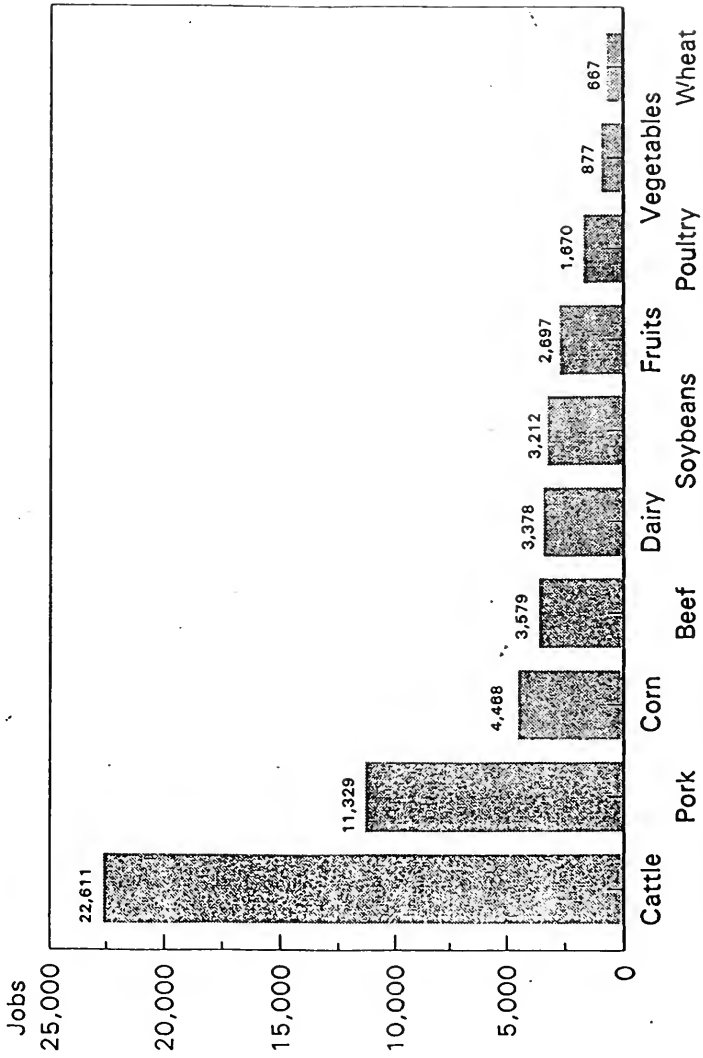
Your prompt response will be greatly appreciated.

Sincerely,

Tom Lewis  
Member of Congress

TL:scc  
Enclosure

## 56 Thousand Jobs Created Due to Agricultural Exports With a Full NAFTA Phase-In



**STATEMENT BY  
THE HON. RICHARD POMBO (R-CALIFORNIA)  
BEFORE  
THE HOUSE COMMITTEE ON AGRICULTURE  
29 SEPTEMBER, 1993 AT 2:00 PM**

Mr. Chairman,

I would like to thank you, as well as our Ranking Member Mr. Roberts, for holding this important hearing today. I also want to thank the distinguished panel for coming here to answer our questions on this very timely matter of the proposed North American Free Trade Agreement (NAFTA).

I am a true supporter of the principles of free and open trade, and -- although not perfect -- I largely supported the NAFTA agreement that was initiated by President Bush last year. I believe that the future economic growth of the United States, particularly in the area of farm exports, lies in opening foreign markets, expanding trade, and participating in the global economy.

Frankly, however, I am concerned about NAFTA's newly added "side agreements." NAFTA was supposed to be, first and foremost, a trade agreement -- not an international labor and environmental pact. I am concerned that by attempting to please everyone, the NAFTA has become unrecognizable to those of us who want to promote economic growth through increased trade opportunities. Since the unveiling of these much-anticipated "side agreements", support for the NAFTA has actually slipped here in the House, and many Members -- including myself -- now stand squarely in the undecided column.

Were this NAFTA to pass, it clearly may lead to the lowering of many trade tariffs. But at what cost? If the price for lower tariffs is that many onerous and burdensome federal regulations are frozen into place, or that American taxpayers will be underwriting foreign environmental clean-ups, or that an unwieldy tri-national bureaucracy will arise that encourages trade disputes -- then the price for this NAFTA may well be too high.



PAGE 2

Despite its hopeful and appealing title, there is clearly a lot lurking in this agreement beneath the surface of "free trade." I've always believed that free trade should increase national prosperity by reducing the intrusiveness of government. And yet, in this agreement, I see over 2,000 pages of old-fashioned rules, regulations and codes. That worries me.

As I stated earlier, I am currently reviewing my position on the NAFTA in light of these new "side agreements." I welcome the opportunity to hear from Secretary Espy, Ambassador Kantor, Administrator Browner, and the other officials here today, and to question them about areas of concern to me and my constituents.

Thank you.

RICHARD W POMBO  
11TH DISTRICT CALIFORNIA  
COMMITTEE ON AGRICULTURE  
COMMITTEE ON NATURAL RESOURCES  
COMMITTEE ON MERCHANT MARINE  
AND FISHERIES  
TASK FORCE ON PRIVATE PROPERTY RIGHTS  
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October 5, 1993

Ambassador Michael Kantor  
United States Trade Representative  
Office of the United States Trade Representative  
600 Seventeenth Street, NW  
Washington, D.C. 20506

Dear Ambassador Kantor:

I would like to thank you for appearing before the House Committee on Agriculture on September 29, 1993, along with Secretary Espy and Administrator Browner. Unfortunately, I was unable to ask you any questions during that hearing, and so I would like to take this opportunity to pose them to you now.

1. Under Article 1114 of the NAFTA, it appears that countries are formally discouraged from lowering their environmental standards to attract investment. What would happen if a state attempts to attract investment by gutting its environmental standards? Does NAFTA contain any remedy for this other than consultations between parties?
2. Article 3 of the environmental side agreement protects a country's right to set its own environmental standards. Does this provision contradict the obligation to upwardly harmonize environmental standards? How can these seemingly contradictory statements be resolved? Can Article 3 be used as a loophole to frustrate upward harmonization, or promote downward harmonization?
3. Under the NAFTA's sanitary and phytosanitary provisions, a country whose standard is challenged must show that the standard is scientifically sound. What standard will be used to define what is "scientific" and what is not?
4. If a country derives a competitive advantage from maintaining low environmental standards, would this be considered a form of dumping? What does the NAFTA do to prevent this?
5. In the August 17th edition of the Wall Street Journal, you stated that "NAFTA's environmental provisions are a model for new international cooperation. Under them, no country in the agreement can lower its environmental standards - ever." Could you further explain or clarify this statement? How would the US be prevented from lowering its environmental standards?
6. If the US were able to lower its environmental standards, could this be construed as an unfair trade practice, possibly subjecting the US to fine for imposed tariffs?

Ambassador Michael Kantor  
October 5, 1993  
Page 2

Thank you, Mr. Ambassador, for addressing my concerns and answering my questions. My position on the NAFTA is, at present, undecided. I await your answers to the questions I have presented to you as I continue to evaluate the total impact that the NAFTA would have on the United States.

Sincerely,



Richard W. Pombo  
Member of Congress

RWP:cd

(The answers were not received in time for printing.)

House Committee on Agriculture  
 Questions Submitted for the Record by Rep. Earl Pomeroy  
 September 29-30 NAFTA Hearing

Wheat

Last week, Undersecretary Moos testified before the Senate Agriculture Committee that he had recommended to Secretary Espy that the U.S. initiate either quantitative restrictions or tariffs on Canadian Wheat under Section 22 of the Agriculture Adjustment Act of 1933 and that this action be given emergency treatment.

Have you had the opportunity to review Mr. Moos's recommendation? When do you intend to forward this recommendation to the President? Would "emergency treatment" allow initiation of Section 22 prior to an ITC investigation?

It is my understanding that under Section 22, the Secretary is directed to advise the President whenever the Secretary has reason to believe that imports of any article "in such quantities as to render or tend to render ineffective, or materially interfere with" any USDA price support or other agricultural program. Is it your assessment that the current situation meets this criteria? When will the President be so advised?

A. Your understanding of Section 22 procedures is correct. In an "emergency" situation, as determined by the Secretary of Agriculture, The President may impose restrictive tariffs or quotas on a provisional basis, pending an investigation by the International Trade Commission.

We understand that the Secretary is currently considering a recommendation from his staff on this matter, as you have indicated. We have no information on when he will make his decision or what he will decide. In that connection, however, Ambassador Kantor has indicated to Secretary Espy that he would support a USDA recommendation for "emergency" Section 22 action on Canadian wheat and would urge the President to act quickly on such a request if the Secretary decided to send such a recommendation forward.

Sugar

I would appreciate being informed of the status of negotiations to address the problems of U.S. sugar producers. Let me emphasize that I believe we must have an explicit agreement with the Mexican government to include all sweeteners when determining if a country is a "net surplus producer"--we can't fix this with implementing legislation only.

A. The available facts suggest that it is highly unlikely that Mexico can become a net surplus producer of sugar under most scenarios in the foreseeable future. However, we appreciate the seriousness of this issue for the U.S. sugar industry, and we agree that a solution along the lines you have suggested may be appropriate. Discussions with representatives of the Mexican Government on this point are continuing, but the issue remains unresolved at this time.

#### Beans and Barley

A number of North Dakota commodities had non-tariff barriers, such as import licenses, converted to tariff rate quotas under NAFTA (beans, barley). What formula did you use to come up with the tariff rate for beans and barley, and how did you set the level of tariff free access?

Beans are very important to North Dakota. My state is the number one producer of beans in the nation and Mexico is our best customer. NAFTA sets duty free access for beans at a meager 50,000 MT; exports above this level are levied with a 139% ad valorem tariff. Exports have varied depending upon Mexican yield and consumer demand but between 1988-91 we averaged 90,000 MT exports to Mexico. The NAFTA tariff rate quota cuts off U.S. bean exports at the knees. How do you respond?

In addition, in the event that Mexico wants to import beans above the quota due to either crop failure/reduction or increased demand, it seems to me that they would be much more likely to import from a non-signatory nation such as China under the old import-licensing system than to pay a 139 percent tariff on U.S. beans. How will you address this situation?

Finally, I am concerned that the U.S. quota for barley could be partially filled by Canadian barley. U.S. malting mills can import and malt Canadian barley--the malt then becomes a U.S. product--and if that malt is then exported to Mexico, it counts under the U.S. quota. It seems that this is clearly contrary to the spirit of the agreement. I would like to know if you intend to address this situation.

A. Initial tariff rate quotas were established based on the average level of trade during recent years. Generally, the three most recent years (1989-91) were used to calculate the average. Where trade fluctuated widely, as it did in dry beans and barley/malt, five years were used as the base and the high and low years were dropped in computing an average. The following shows the level of our exports of dry beans and barley/malt to Mexico during the years 1987-1991, the years used to calculate the tariff rate quota level.

U.S. Exports of Dry Beans to Mexico  
 Calendar Years 1987-91  
 -- Metric Tons --

1987	--	31,000
1988	--	7,000
1989	--	90,000
1990	--	152,000
1991	--	37,000
1992	--	23,000

U.S. Export of Barley and Barley Malt to Mexico  
 Calendar Years 1987-91  
 -- Metric Tons--

	<u>Barley</u>	<u>*Barley Malt</u>
1987	1,000	0
1988	3,000	0
1989	136,000	65,000
1990	167,000	18,000
1991	53,000	49,000
1992	76,000	55,000

\* 700 kilograms of barley malt = 1 mt of barley

With regard to the situation after the tariff rate quota (TRQ) has been filled, it is incorrect to view the TRQ as a ceiling. In fact, it is a guaranteed minimum access level. If Mexico needs additional quantities of dry beans, for example, it certainly is free to increase the size of the quota or limit the over-quota duty. In fact, we would expect that if Mexico has additional dry bean needs above the TRQ amount, it would waive the over-quota duty and acquire those quantities from the United States -- its largest, closest, most reliable, and most competitive supplier. It simply would make no economic sense for Mexico to do otherwise. Certainly, we would complain if Mexico were to issue licenses to permit entry of dry beans from outside the NAFTA region while plentiful supplies were available at competitive prices within the region. While such action by Mexico may not violate the letter of the NAFTA, we would certainly consider it inconsistent with the spirit of the Agreement.

On the matter of barley converted to malt by U.S. maltsters, it is correct that NAFTA rules of origin would treat malt produced in this country as a product of the United States, regardless of the origin of the barley. This means that it would be charged against the U.S.' NAFTA tariff rate quota for barley/malt. Under that same rule, barley grown in the United States, malted in Canada and exported from Canada to Mexico would be charged against Canada's tariff rate quota. Although the latter scenario is unlikely as long as the Canadian Wheat Board (CWB) controls imports of barley, you may be aware that the Canadian government recently proposed to remove barley from the list of products controlled by the CWB. If this proposal becomes a reality, it could significantly change barley/malt trade flows between the United States and Canada.

QUESTIONS FROM HON. NICK SMITH OF MICHIGAN:

As you may know, Michigan is a major producer of sugar beets with 111,000 acres in production. The sugar beet producers are concerned about a provision in NAFTA concerning import quotas on Mexican sugar during the first 15 years of the agreement. The quotas allow Mexico to export sugar to the United States only if Mexico becomes a net producer of "sweeteners" -- that is they produce more sweeteners than they consume.

The sugar beet growers are concerned that "sweeteners" as defined by NAFTA will exclude corn syrup. They fear that NAFTA would allow Mexico to import cheap U.S. corn syrup. This corn syrup would replace sugar for many uses, and could make Mexico a net producer of sugar. The sugar beet growers want to make sure that corn syrup is included in the definition of "sweetener" in NAFTA so that the export of American corn syrup to Mexico does not provide a loophole for Mexico to export sugar to the United States. Will the Administration clarify this definition in the NAFTA?

A. The available facts suggest that it is highly unlikely that Mexico can become a net surplus producer of sugar under most scenarios in the foreseeable future. However, we appreciate the seriousness of this matter for the U.S. sugar industry, and we agree that a solution along the lines the industry has recommended may be appropriate. Discussions with representatives of the Mexican government are continuing on this point, but the matter remains unresolved at this time.

USTR/LC 10-27-93



Congressman Terry Everett  
House Agriculture Committee  
Hearing on NAFTA and Supplemental side agreements

September 29, 1993

I would like to thank Chairman de la Garza and the Ranking Member Mr. Roberts for having this hearing today on NAFTA. I have been a strong opponent of NAFTA and I welcome the opportunity to question Mr. Kantor on these side agreements as well as Ms. Browner and Secretary Espy.

When I was elected to Congress, I was opposed to the creation of the North American Free Trade Agreement because of its harmful effects to the Second Congressional District. For example, the Second Congressional District has almost 20,000 apparel cut and sew workers who feel their jobs would directly be threatened under NAFTA. In addition, my district is the third largest producer of peanuts in the U.S. Under NAFTA, producers, shellers, and all the other industries that depend upon peanuts would be devastated. Entire communities in the Southeast corner of Alabama, of which my hometown is one, would be economically devastated.

Right now, the U.S. allows only 774 metric tons of foreign peanuts to be shipped into the United States each year. After NAFTA, Mexico would be allowed to multiply this amount by more than a factor of four to a level of 3,377 metric tons--duty free the first year, and then receiving a 3% increase every year thereafter.

As everyone here is aware, NAFTA sacrifices Section 22 of the Agricultural Act of 1933, as amended. This provision allows the U.S. to limit imports to protect the operation of and lower the cost of operating domestic farm programs. I note, for example, that in developing the Canadian Free Trade Agreement, Section 22 was not eliminated. Canada maintains a similar program known as Article Eleven and has strongly protected it against elimination by the GATT discussions. Since Mexico is not a net exporter, the elimination of Section 22 was not necessary. It appears to me that this is encouraging peanut production in Mexico, displacing U.S. production. This unfairly penalizes the American farmer which has consistently maintained the highest food quality and safety standards in the world.

Thank you, Mr. Chairman, and I look forward to the testimony and enlightened exchange I'm sure we will have here today.

## QUESTIONS FROM CONGRESSMAN EVERETT

**QUESTION 1:** Have any studies been conducted by the U.S. which show how quickly tariff rates place Mexican-grown peanuts equal to or more competitive than peanuts grown for the domestic market? In other words, is there any evidence that shows how soon the Mexican peanut market under the new tariffication will gain an advantage over U.S. domestic peanuts?

A. Currently, Mexico is a minor producer of peanuts. Just how quickly Mexican peanut producers could become competitive with their U.S. counterparts would depend upon a number of variables, including relative increases in U.S. and Mexican peanut production efficiency, relative changes the level of government support provided to U.S. and Mexican peanut producers, and alternative uses for Mexican cropland.

The U.S. Department of Agriculture expects that Mexico will continue to be a net importer of peanuts. Per capita consumption in Mexico is roughly one-quarter of the U.S. level and economic growth generated by NAFTA will encourage greater Mexican consumption. U.S. peanut exports to Mexico on a shelled basis have quadrupled since 1987/88. Expansion of peanut production in Mexico is expected to be limited by competition with other high-value crops for land and the high capital costs of equipment required for peanut production, shelling and storage. By the end of the 15-year transition, U.S. exports of peanuts to Mexico are expected to increase to around 19,000 metric tons, about 8 percent larger than without NAFTA.

**QUESTION FOLLOW-UP:** Can you tell me how the border enforcement procedures can preclude the import of previously exported DOMESTIC ADDITIONAL PEANUTS, which can be processed into peanut butter and other products, and then exported back into the U.S. domestic market, in violation of U.S. law? (There is a 140% penalty under current law)

A. Currently, "additional peanuts" exported from the United States to Mexico may re-enter the United States, but are subject to Section 22 import quotas and U.S. handlers of these stocks are subject to stiff penalties levied by the U.S. Department of Agriculture which effectively prohibit their re-importation. At the present time, peanut products imported from Mexico are not subject to any quantitative restrictions and pay the same tariff, whether they are made from U.S. additional peanuts, Mexican peanuts, or third-country peanuts.

NAFTA will change the existing situation. NAFTA includes a special rule of origin crafted specifically to deal with problems posed by the availability of U.S. additional peanuts in the Mexican market. The special NAFTA rule for peanuts stipulates that only peanuts grown in Mexico and peanut products made from peanuts grown in Mexico will be eligible for NAFTA preferential treatment. NAFTA rules of origin are enforced by U.S. Customs officials who are authorized to visit and audit Mexican firms if there are questions about compliance with those rules.

QUESTION 2: The U.S. has already seen a huge increase of Canadian peanut product imports under the Canadian Free Trade Agreement (CFTA).

SOURCE: Foreign Agricultural Service  
1992- 662,000 metric tons imported through Canada  
1993- 1,152,000 metric tons imported

Would you consider this a surge, and what would the procedures be, under the side agreements, which would address this issue? Given the past experience with durum wheat, at what point would the U.S. consider an influx of peanuts from Mexico or Canada a surge?

A. Conditions of market access for trade in agricultural products between the United States and Canada were not changed by the NAFTA. Provisions of the U.S.-Canada Free Trade Agreement continue to govern trade in agricultural goods across our northern border. In that connection, Canada did not agree to the special rule of origin covering trade in peanuts and peanut products between the United States and Mexico. On the other hand, neither the U.S.-Canada Free Trade Agreement nor the NAFTA preclude the United States from applying Section 22 quotas or fees to imports of Canadian agricultural products, as long as such actions are taken in accordance with our obligations under the U.S. GATT waiver. Therefore, the appropriate response to increased imports of Canadian agricultural products which are undermining, or threatening to undermine, USDA price support programs is Section 22 action. As USDA officials have testified, Section 22 action is being considered with respect to both Canadian wheat and peanut products.

QUESTIONS FOR MS. BROWNER  
EPA

QUESTION: This committee is aware that Mexico is using a significant number of insecticides, fungicides, and soil fumigates, which are prohibited from use by American peanut producers. Do we know the effect this will have on the competitive position of American producers, given that the cost for producing peanuts in Mexico using banned chemicals is lower than the U.S. peanut farmer? Although we know that the U.S. says that they will not allow foreign agricultural produce which contains residue of these banned substances, do we have the manpower and border inspection infrastructure to address this problem effectively?

If we can't test for these banned chemicals effectively at the border, how can we be certain that Mexican peanuts crossing the border are not in fact U.S. Additional Peanuts that have been processed into peanut products?

QUESTIONS FOR SECRETARY ESPY

How will the domestic peanut program and Section 22 be impacted under the NAFTA?

How does the NAFTA or its supplemental agreements protect Section 22 and the ability of the U.S. to maintain its ability to limit imports to protect the operation of and lower the cost of operating domestic farm programs?

(The answers were not received at time of printing.)

The CHAIRMAN. This morning we had Secretary Espy on the reorganization of the Department of Agriculture and we found that in order to accommodate all of the members—I might add that it was a very good and informative session—but in order to accommodate all the members who had questions, we limited the time to 2 minutes per member. Then we found that we had time for a second round.

So we are looking at 1½ and possibly 2 hours if we go our usual 2 minutes. If there is no objection from the members, after the witnesses conclude, we will allow a liberal 2 minutes and then see if there will be additional time for members to continue questions if there is no objection.

Mr. Roberts triggered a comment I want to make about one of the pages of our famous charts. That is the U.S. trade balance, his comment about Secretary Brown of Commerce. The red is everything not agriculture. There may be an item positive, but collectively nonagriculture is \$100 billion plus in the deficit.

The only thing bringing money back from abroad is agriculture collectively. It is the only thing bringing money back from abroad. Collectively, nothing else industrial is bringing money back from abroad. Farm investment, you can't see the line, but that is what we invest in farm program support, seven-tenths of 1 percent. That translates into 17 percent of GNP. That is what agriculture does, 17 percent of GNP for seven-tenths of 1 percent investment.

It is the only one bringing money back from abroad to the tune of \$18 billion.

We used to be over 50, but that has come down for a multiplicity of reasons. We are on the way up again. It is the only thing bringing money back collectively.

So pardon me for bringing this out at this time, but I think it is very appropriate.

We welcome all of you and we will begin with Ambassador Kantor who has been the lead administration official in the NAFTA deliberations.

Ambassador Kantor, we are always happy to see you. We welcome you.

#### **STATEMENT OF MICHAEL KANTOR, U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE**

Ambassador KANTOR. Thank you, Mr. Chairman, and Mr. Roberts. I thank you both. On behalf of you and your colleagues, Mr. Chairman, I would like to submit my entire written testimony for the record, if there is no objection.

The CHAIRMAN. Yours, Mrs. Browner's and Secretary Espy's formal statements will appear in the record.

Ambassador KANTOR. I appreciate your having us here today. I appreciate your quoting our boss. I think he was right.

Mr. Roberts, I agree with you that one of the critical questions that you asked has to be answered: What do we do if we don't ratify NAFTA and what is the price we pay not only in agriculture but in manufactured products, the economy in general and of course in foreign policy terms.

I think all are serious questions. What I hope to do, Mr. Chairman, is not duplicate what I know Secretary Espy and Adminis-

trator Browner will cover although I have my less fancy charts from USTR. We are a smaller agency and we don't have any colors on them.

I will try to go through very quickly the agricultural part because I know Secretary Espy will more than adequately cover that and I know Administrator Browner will cover the environmental aspects.

I would like to start by echoing what I think has been said this morning. There is much too much misleading rhetoric. There is much too much misinformation. There is much too much hyperbole, frankly, from all sides regarding the NAFTA and the side agreements.

I would like to start by saying NAFTA will not solve every economic problem this country faces nor will NAFTA even solve every problem that we have with Mexico. But I think the question we have to ask ourselves, what the President asked himself on October 4, 1992 in Raleigh, North Carolina when against great odds and political wisdom decided to support NAFTA with side agreements.

This administration, as well as those in Congress, have to answer, are we significantly or substantially better off with NAFTA than without it. It is a simple question but a difficult answer.

Any other question, I think, does not really get to the real heart of what we are trying to do here. What we are trying to do, of course, is take what has been an unfair situation for American workers, whether it be in manufacturing or agriculture, and make them fair, a very simple proposition. We have evidence that when you do that it works.

Our workers win and we grow the economy of the United States, but we also grow the economy of Mexico. That has not only been the experience of Mexico but also of Chile, Argentina, and Venezuela. This is not just the phenomenon with Mexico. This is not that win-lose gain. It is not the classic zero sum gain. This frankly is a win-win-win gain for all three nations involved.

I would like to make one quick comment. NAFTA does not stand alone in terms of what this administration is trying to do in terms of economic policy. Literally no trade agreement or trade policy should be your whole economic policy because it just wouldn't work.

If we don't keep our deficit down and keep interest rates down and therefore unleash capital for private business and grow our economy in that way and invest in our people, in their education and in our infrastructure again and also have welfare reform and educational reform and, yes, we have to get health care reform in order to be more competitive and more productive as a society. Then it makes no difference if we open new markets because surely we will not be able to compete in them.

But if we do these things, as the Congress is beginning to do, working with the President in a bipartisan way, then frankly, Mr. Chairman, Mr. Roberts, members of this committee, then the only way we can grow our economy as we become more productive, as each worker produces more, is of course to increase your markets. When you increase your markets, when you are more productive, you grow jobs.

If you don't increase your markets and you become more productive, then by its very definition, as the Washington Post had a very

interesting article today on manufacturing, you begin to lose jobs even though you are more efficient.

So NAFTA is designed to open up a very important market for the United States of America and that is Mexico. As you know, we already have a free-trade agreement with Canada. But for years our market with Mexico has been closed to United States exports essentially. What we have had is a free trade agreement with Mexico but the wrong one. It has been free trade going only one way, from Mexico to the United States.

We have had high tariff barriers in agriculture averaging about 16 percent and other goods 10 percent, about 2.5 times higher than our own tariffs. At one time Mexican tariffs were 100 percent, but they are at the bound rate of 50 percent under GATT.

Two, we have had rules that have worked against U.S. manufacturing and agricultural exporters. The rules have been performance requirements, production requirements, licensing, import licensing requirements with which this committee is very familiar. Those rules have also worked against us.

Then, of course, we have had the maquiladora program starting in 1965. That gave trade preferences to United States and other companies, about half the companies in that area are United States, to move down to Mexico, take United States jobs with them, import components parts which then became tariff free if made into finished goods which were exported back to the United States and could not be sold in Mexico.

To add insult to injury, what we did as a country was we said on the value added on those goods that came back we would only charge tariffs on that part, not on the whole product itself. Nothing could have worked better to suck jobs, using that phrase that has been used by our friend from Texas, the United States would have high tariff barriers, unfair rules, maquiladora programs and a Mexican Government that did not enforce environmental or labor standards, thus giving them a competitive advantage.

Now the next question that should be asked of me or any one of us, don't tell me about academic studies. What makes you think even getting rid of these unfair rules, making it fairer for American workers, is going to operate in the way we think? We have some evidence. I know that Secretary Espy is going to talk about it.

I want to talk about it very quickly in both the manufacturing and agricultural sectors.

In 1987, President Salinas began to lower the barriers just a little bit. Look what happened. Our exports rose from \$12.4 billion to \$40.6 billion. A trade deficit of \$5.7 billion went to \$5.4 billion trade surplus. We went from 275,000 jobs strictly related to exports to Mexico in this country in 1987 to 717,000 jobs related to exports in the United States, exports to Mexico, an enormous growth.

In agriculture, I think we went from \$1.2 billion in exports in 1987—and you can see where the lines crossed in 1987—where exports started to exceed imports and the trade balance in agriculture grew from \$1.2 billion to \$3.8 billion in 1992.

I know Secretary Espy is better with numbers than I am, but I think those are the numbers.

By the year 2008, that \$3.8 billion under NAFTA will grow to \$10 billion and create another 56,000 jobs strictly related to

NAFTA in agriculture, and with natural growth in exports to Mexico the total will be 108,000 jobs. This is enormous growth.

Now we have one other factor that I think we need to take into account. The Mexican population is, I think, 50 or 75 percent below the age of 25 years. It is 60 percent below the age of 25 years old. They consume per capita three times the amount of cereals that we consume, and they have three times the birth rate. By 2008, there will be 107 million people in Mexico. There will be almost 500 million people living south of the Rio Grande, the second fastest growing economic region in the world today, Mr. Chairman.

We have an unparalleled opportunity to grow our agricultural sector, to create jobs, to grow our manufacturing sector to create jobs, opening up investment and opening up service sectors in Mexico for the first time. As you know, Mr. Chairman, it has been closed for 400 years, opening up for the first time to grow our service sector in this country.

Will it solve all our problems? No, it won't. But together with opening up NAFTA to other countries in the future in this hemisphere, creating a trade preference for the United States and our workers, a trade preference against who, our greatest competitors, Japan and the European Community.

I would like to go to the question now that Mr. Roberts raised. Frankly, the No. 1 price we will pay if we don't ratify this agreement is nature abhors a vacuum. I can tell you who is going to go into those markets if we don't. You don't have to use your imagination. The second heaviest investors in Mexico are the Japanese.

It would be a shame if we did not capture these markets in the best interest of Mexico and the United States and the best interests of the Latin American nations and the United States for our workers and our businesses and let this opportunity pass.

No. 2, the last thing we want to do is create political and foreign policy problems with Mexico and Latin America, discourage the growth of market economies in that region from Mexico south, to discourage the growth of democracy in this region and, frankly, lead to destabilization and disinvestment in that area.

NAFTA is a winner. It makes us substantially and significantly better off than we are without it. Turning down the NAFTA is not in the best interests of the United States.

Thank you.

[The prepared statement of Ambassador Kantor appears at the conclusion of the hearing.]

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

Mrs. Browner.

#### **STATEMENT OF CAROL M. BROWNER, ADMINISTRATOR, U.S. ENVIRONMENTAL PROTECTION AGENCY**

Mrs. BROWNER. Thank you, Mr. Chairman. I appreciate the opportunity to appear before the committee today to discuss the environmental aspects of NAFTA and the supplemental agreement. I will briefly highlight what I think are the important environmental aspects of both NAFTA and then the side agreement.

Let me start by saying that I have absolute confidence that with NAFTA and the side agreement the environment of all three countries will benefit. NAFTA is the first trade agreement ever nego-



tiated that acknowledges the important link between trade and our environment. It will help us meet the many urgent needs along the United States-Mexico border. It is good news for public health throughout North America, and it will serve as a model for the rest of the world.

In all three countries, NAFTA promotes sustainable development, the using of natural resources prudently and wisely instead of needlessly depleting them. In all three countries, NAFTA makes it harder to pollute. NAFTA commits all three countries to enforce environmental laws and regulations, the first time such commitments have ever been made in a trade agreement.

NAFTA discourages all three countries from trying to attract investors by relaxing environmental rules. NAFTA explicitly gives precedence to international environmental agreements such as the Montreal protocol and the Basel convention, this, too, a first for any trade agreement.

There are a lot of the misconceptions about NAFTA, as Ambassador Kantor has stated. There is one I would like to set straight. NAFTA preserves the ability of the United States to enforce our own health and environmental standards on the Federal level, on the State level, and on the local level. No one should believe that there is any threat to U.S. environmental regulations. They are protected.

The side agreement is a remarkable agreement in its own right. The side agreement promotes environmental cooperation among the three countries on a scale we have never seen before, cooperation on pollution prevention, not just cleanup, cooperation on regionwide environmental planning, not just pollutant-by-pollutant controls.

NAFTA has teeth. It strengthens national enforcement of national laws. It obligates each country to enforce its own environmental laws. It creates a path-breaking method of settling disputes among the nations over enforcement activity including the possibility of sanctions.

Finally, I want to speak briefly about the border area. The residents of the border cannot afford to clean up and prevent environmental damage themselves, nor should they be expected to because the increased activities along the border will benefit our Nation as a whole and all of Mexico as well.

What we believe is needed is a public-private financing structure that involves local people and local expertise. We have proposed the creation of a Border Environment Administration that will put together financing packages and provide technical support for environmental projects beginning with drinking water, wastewater, and solid waste projects. A Border Environmental Financial Facility would be created in the Inter-American Development Bank as one source of financing for these projects.

Finally, NAFTA gives citizens of all three countries an opportunity to participate in environmental protection as never before. It promotes greater public access to courts and other bodies that enforce environmental laws.

In addition to the work I discussed on the border, the United States is committed to join with the Government of Mexico to create a Mexican conservation fund. We would create up to \$20 mil-

lion to establish the fund. This effort would protect forests, water quality, and biodiversity in the border region.

Mr. Chairman, that is a brief summary of the NAFTA and the environmental side agreement. We believe that, taken together, NAFTA and the side agreement are certain to help protect the environment of all three countries.

Thank you.

[The prepared statement of Mrs. Browner appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Mr. Espy, our former dear colleague and Secretary of Agriculture. We welcome you.

**STATEMENT OF MIKE ESPY, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY GENE MOOS, UNDER SECRETARY**

Secretary ESPY. Thank you Mr. Chairman. I thank you for allowing me to return for a second time today and join the podium with Ambassador Kantor and EPA Administrator Carol Browner to discuss NAFTA.

We had a very thorough hearing this morning. You have done pretty well this afternoon. It is hard for me to add a lot to the very excellent statements that have been rendered.

I have a written statement. I would like to include that as a part of the written record. I would appreciate it.

The CHAIRMAN. It will be done.

Secretary ESPY. Thank you, sir.

Mr. Chairman, there is a very controversial issue, as you know. There is much debate going on about NAFTA. The debate has in many cases been surrounded by misconception, characterized by hyperbole and exaggeration, and, depending on where you sit, NAFTA is either heralded as the second coming or evidence of the mark of the Devil himself.

What I would like to do as Secretary of Agriculture, one, I am promoting farm income and the interests of farmers and agribusiness and tried to stick to the facts and to really give a common-sense approach and analysis about what this means for the United States in general and U.S. agriculture in particular.

I really do believe that NAFTA is a win-win for U.S. agriculture. Why? Because, as has been said already by Mr. Roberts and others, the future of farm income is tied to export development. Out of all the acres that we have within the Nation, one-third to almost 40 percent of the acreage is grown for the export market. So NAFTA targets a very lucrative market and where we are given preferential access, and that is something we simply should not pass up.

How do I know it is win-win for U.S. agriculture? Because, Mr. Chairman, as you can attest, both of us visited Mexico about 3½ weeks ago. I attended for a special reason. The chairman and I cut the ribbon on the largest trade show that the USDA has ever held in any country since our creation in 1863. We cut the ribbon on the Mexican Trade Show where we entertained over 200 United States exhibitors to try to tap into this very lucrative market.

This was not a public show. In other words, the Mexican general population could not attend this particular show. But it was elbow to elbow with Mexican vendors and those involved in food and agriculture, in the industry, there to see what we could offer in the way of value-added processing and food, et cetera. So we know that they are interested, and we should really take advantage of that interest and not avoid this opportunity.

I believe that it is a win-win situation for U.S. agriculture because this is, in effect, creating a 390-million-person market. In Mexico alone we should consider as consumers, 90 million additional consumers for what we grow and process in the United States, all with the expectation of rising incomes and a rising standard of living with a greater diversity in consumers' habits and, frankly and fortunately, a better diet.

I believe it is a win-win for us, Mr. Chairman, because it locks in the trade gains we have already seen evidenced since 1986. Ambassador Kantor discussed this. He was correct in telling this committee that, just since 1986, since President Salinas assumed the Presidency of Mexico and through his reforms in liberalizing that economy and reducing the tariff and tariff barriers, reducing some of the duties and import licenses, we have seen exports rise in our favor from \$1.2 billion in 1986, when he started, to what is now \$3.8 billion. And when the figures come out for 1993 we believe that we will see a quadrupling of the export sales to almost \$4 billion, just based on unilateral reforms in our favor from Mexico.

Mexico already represents the third largest foreign market for United States agricultural products, the second largest for United States manufactured products. We believe that equates to about 700,000 jobs, 400,000 more just since 1986, and the potential, as Ambassador Kantor said, is even greater.

Because, although Mexico since 1986 has dropped their tariffs significantly, still their tariffs remain about 2½ times higher than ours. The average United States tariff from goods from Mexico is about 4 percent, while the average tariff from the United States to Mexico is about 10 percent generally.

And in agriculture it is even higher. The average Mexican tariff on United States agricultural products is about 16 percent, while the United States tariff on Mexican products averages about 4½ percent.

Additionally, much more needs to be said about the benefit that comes from the immediate elimination of a lot of their import licensing restrictions which are just abhorrent and serve as tremendous barriers to trade against our advantage.

We expect that many of our exports to Mexico will increase immediately, but even more gains will be realized overtime as the Mexican standard of living grows and as the Mexican market grows even further.

NAFTA will create new, long-term growth opportunities for agriculture within our own hemisphere. We believe that U.S. agricultural exports will be between \$2 billion and \$2.5 billion higher with NAFTA as fully implemented than without NAFTA.

U.S. grains and meats will account for more than half the expanded trade value, although many U.S. products would benefit.

We also see new opportunity in the area of biotechnology, trade and transportation of farm products. This increased export demand will—may have a positive impact on prices and cash receipts, boosting them up 2 to 3 percent.

The CHAIRMAN. Mr. Secretary, could I interrupt you very respectfully?

We hope to continue with the hearing. So members may wish to go vote and come back. Hopefully, by the time the vote is over, we will be ready to begin with the questions.

Go ahead, Mr. Secretary.

Secretary ESPY. A lot has been said about what NAFTA will do. Let me spend a second telling this committee what NAFTA will not do.

NAFTA does not affect United States quotas imposed under section 22 for any country except Mexico. In other words, our ability to utilize section 22 against other countries, including Canada, is unaffected. Nor does it affect U.S. tariffs or other import protections from 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 that the States themselves might impose.

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

NAFTA does not prevent us from using MPP, the market promotion program, nor does it stop us from using the EEP, the export enhancement program as well as other measures to counter the unfavorable trading practices of our competitors, and NAFTA does not require any changes in the operation of the U.S. domestic farm programs.

In fact, Mr. Chairman, I would like to point out to this committee that, based on preliminary estimates, we believe that roughly \$3.2 billion will be saved in deficiency payments over the next 15 years because of NAFTA and even account for lost tariff revenues on U.S. products.

We believe there are significant savings in the agricultural sector, resulting in savings of more than \$2 billion for the American taxpayer.

So, in conclusion, I believe, as we all do, that this is a win-win for the United States and particularly for agriculture.

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

Ambassador Kantor is correct. If we don't jump on this, Mr. Chairman, we know that there are others who will, principally Japan and the European Community, who have long recognized the

advantages of a special trading relationship with countries nearest your own borders.

If I can, Mr. Chairman, I would ask for these charts—and even though the committee—

The CHAIRMAN. Let me interrupt at this point.

It is no sign of disrespect that the members proceed to vote. But they can read your statement, and I would allow them more time in order to address questions from the members. And I assure you it is no sign of their respect whatsoever. They can catch up with your statement, but they cannot catch up with the time to ask questions. To accommodate the members we have done that.

You may continue.

Secretary ESPY. Mr. Chairman, I think this is very important that at least I summarize this.

We have several charts. I will go through two of them. They all relate to the benefits to the United States from NAFTA, based on full implementation.

There is a constant question as to whether or not this treaty will create jobs. Mr. Chairman, just based on a few commodities from cattle to pork, corn, beef, soybeans, poultry, vegetables, and fruit, we have a chart which designates the job creation by commodity sector through the 15-year implementation period—56,000 new jobs created due to agricultural exports with the full NAFTA implementation.

Just based on cattle—the slaughtering, the processing, the transportation—we believe we will see 22,600 new jobs created with the advantages of our new export opportunity. For pork, 11,330 new jobs; corn, 4,470; 3,580 for beef; dairy, 3,380; soybeans, 3,210; and on down the line. For most of these commodities we see definite income growth and trade and job growth.

Then, as Ambassador Kantor has already said, we see significant opportunities with trade exports to Mexico. The \$1.2 billion in 1987 when President Salinas began his reform—when the NAFTA negotiations were announced in 1990 it jumped to \$2.7 billion. In 1992, we stand right now at about \$3.8 billion.

As Ambassador Kantor has already said, we see a tremendous explosion in growth of about \$10.1 billion with the full NAFTA phase-in implementation. So we stand on our belief that NAFTA is a win-win situation for agriculture.

Mr. EMERSON. Mr. Chairman, could I interrupt?

The CHAIRMAN. Yes.

Mr. EMERSON. I understand these charts, which I think are very important, are not all included in the prepared statement. I wonder if the charts could be submitted to the members of the committee.

Secretary ESPY. That would be my request.

The CHAIRMAN. I thank you very much. I don't think some of the charts can be duplicated, but we certainly can distribute what we can to members. So if you give us the original we will make copies and go from there.

Secretary ESPY. Thank you.

[The prepared statement of Secretary Espy appears at the conclusion of the hearing.]

The CHAIRMAN. I would like to mention for the record that you bring with you Mr. Gene Moos, one of your Under Secretaries. We are happy to have you here.

I know there are going to be two questions asked, and the other members are not here. I will ask it, and you can say you already answered it when they question you.

Mr. Secretary, we have a very serious concern that relates to Canada about imports of wheat. I understand that you are contemplating some action. Is that correct?

Secretary ESPY. Mr. Chairman, that is correct.

As you know, the Secretary of Agriculture has a responsibility of analyzing whether or not imports from other countries materially affect our farm programs. There has been much concern lately that the increased wheat imports from Canada has materially affected our wheat program to the detriment of our producers and affected our income and outlays.

There has been a memo from our trade section suggesting that we impose the imposition of section 22 with regard to Canadian wheat. I am reviewing this proposal. I discussed it with the Ambassador. We met with many parties in this record, and I have not yet signed it, but I am considering the signature.

The CHAIRMAN. Thank you very much. If it comes up again, you might say you already answered it.

Ambassador KANTOR, there is great concern about sugar and high fructose corn syrup not being included in the calculation formula under the agreement. Would you think that it might be helpful if we clarified this in the implementing legislation or can you do something at this time within your ability to do so?

Ambassador KANTOR. We would like to cooperate with the committee and of course with the other signatories to this agreement in order to address this issue. As you know, Mr. Chairman, for 6 years there can be no significant increase in sugar exports from Mexico, even if they become a net producer of sugar.

Right now, they export 7,258 tons. They may go to 25,000 tons. After year 6, they could theoretically become a net surplus producer. Right now, they are consuming more than they produce by a fairly wide margin and they do not have the ability at the present time to produce HFCS—high fructose corn syrup.

On the other hand, it is theoretically possible they could, and if they did they could substitute—under the present formula in the agreement, they could substitute that for sugar which is used to produce soft drinks and, therefore, possibly become a net producer in the outyears.

We are sufficiently concerned about that possibility to want to work with our Mexican partners and with this committee and other committees of the Congress to address the issue. We have had many conversations.

As you know, we continue our conversations with our counterparts in the Mexican Government. We would be pleased to cooperate with this committee at the chairman's direction in order to address the problem effectively.

The CHAIRMAN. Thank you very much. We will work with you. I have a personal little story I would like to mention to you when

I get back, Mrs. Browner. Mr. Stenholm, I guess you have all the questions to yourself for the time being.

Mr. STENHOLM [assuming chair]. First off, Mrs. Browner, would you discuss with us the current situation regarding safety inspections, safety of food supply as currently exists between the United States, Mexico, and Canada, and what the situation will be under NAFTA.

Mrs. BROWNER. Mr. Chairman, under the current law as it exists today, foods, vegetables, and fruits containing pesticides that do not meet the standards of the United States cannot be brought into the United States. The Food and Drug Administration has responsibility for the inspections and the enforcement of those current requirements.

NAFTA would not change that. We would continue with the law which does not allow for the importation of fruits and vegetables with pesticide residues not permitted in this country.

Mr. STENHOLM. Are we inspecting fruits and vegetables and livestock today?

Mrs. BROWNER. Mr. Chairman, as I think we discussed in your hearing last week with FDA and USDA with regards to the company, it is a pesticide package that the administration is recommending. There is more to be done in the area of these inspections and my sense—and I don't want to talk for another agency—my sense is that the Food and Drug Administration clearly recognizes the concern in terms of the number of inspectors that they have available and is willing to do everything they can to address that.

Mr. STENHOLM. Mr. Espy, you mentioned \$2 billion potential budgetary savings over 15 years. Do you have numbers for the next 1 or 5 years available.

Secretary ESPY. The near term?

Mr. STENHOLM. Near term.

Secretary ESPY. Mr. Chairman, we expect the benefits of these exports to increase immediately. I don't know if I have—I can get that for you. The \$2.5 billion would be over the implementation period.

We do know that we would see immediate increases in commodities such as corn and cattle, immediately as they reduce these duties to near zero, but I don't have the accompanying figures right now.

Mr. STENHOLM. On my way over to vote, I was handed a publication from a nice little lady dressed in the American flag, and holding a flag, and the publication stated unequivocally that free trade is unconstitutional.

Ambassador Kantor, would you comment as to free trade being unconstitutional?

Ambassador KANTOR. I am almost speechless, Mr. Stenholm.

Mr. STENHOLM. So am I.

Ambassador KANTOR. I quit practicing law on January 21 of this year when I took the oath of office, but let me try to answer that question. There is nothing more important to this country and more consistent with the Constitution than creating jobs and growing the economy for American workers and American business. Nothing is more important to us to preserve our democracy.

One of the things that I am sure has bothered you as you go through town meeting after town meeting—and all of you have—and as I went through a campaign for almost 2 years with the President, is the frustration, the anger, and anxiety of the American people. What we need to do is not retreat but allow the American people to compete and create jobs.

We have the most productive agricultural and manufacturing sectors in the world. All we need to do is get rid of unfair rules, open markets, enforce our trade laws and enforce our trade agreements and we will not only serve the American people, I believe we will serve the Constitution.

Mr. STENHOLM. Thank you.

Mr. Roberts.

Mr. ROBERTS. Thank you, Mr. Chairman.

The environmental supplemental agreement provides that any person can appeal to the Secretariat if they determine that a country is not enforcing its own laws. And my concern is that this supplemental agreement opens up a new avenue outside the U.S. courts and administrative reviews for the possibility of registering complaints about the U.S. laws. It is the other side of the sovereignty sword, if you will.

A strict process is set up that could result in fines and ultimately the withdrawal of reduction of tariffs that are provided under NAFTA. And so I am asking the assurance of the Secretary of Agriculture and our United States Trade Representative that this process will not serve to undermine the agricultural trade in North America.

Ambassador KANTOR. In fact, if I could, Mr. Roberts, that is addressed in the environmental as well as the labor agreements with similar provisions. First, any pending matter that is active cannot be taken up by either the labor or environmental commissions. There is a commission of labor and environmental cooperation.

Second, we have an exhaustion of remedies sector. Now if those two things are not dealt with, and I think that is the essence of your question, then of course if you have remedies that have been exhausted and/or there is no pending issue, then of course it could be brought to the Secretariat.

But then you have to have three, literally three majority votes of the commission, that would be the ministers or directors of each country, in order to ever get to dispute resolution. So the fact is we have—and it has to be a trade-related circumstance.

So when you put all that together plus the circumstances, it would have been to the persistent and significant failure to enforce the law. I think we find that we have protected against the very situation that you have raised in your question.

Mr. ROBERTS. You have anticipated my next question which is in regard to the labor issue, but this also raises the question of a bureaucracy that could be somewhat heavyhanded outside the United States that could negatively impact our productivity, not because of any legitimate complaint, but offering a forum that bypasses our normal U.S. procedures for resolving any differences in regards to the environment and labor and that is the concern.

I had another question in regard to how we are dealing with import surges but my time is going to be up and it is basically Mr.



Lewis' question, so I am going to yield to him for that question when it is his turn.

I thank you for your answer.

Mr. STENHOLM. Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr. Chairman. In 2 minutes, it is hard to get answers on any questions. I would like to get some answers and one real quick is, yesterday the World Bank approved \$3 billion financing for pollution cleanup. They estimate or estimated it is going to cost about \$20 billion to clean up the pollution problems that they have in Mexico.

My question is: How will they ever come up with the \$20 billion to deal with that problem, what enforcements or protections do you think NAFTA has with dealing with enforcing the environmental standards that we have here in this country and try to encourage their country to meet the same?

Two other questions I would like to know: Where are we on the sugar problems on trying to account for syrup with Mexico or Mexico will account for syrup on their sugar quotas, and the third question is where are we on the Canadian wheat problem?

Mrs. BROWNER. Very quickly, on the environmental costs that you raised, the estimates relating to the border are somewhere between \$6 and \$8 billion to put in place the infrastructure, the wastewater, the drinking water, the solid waste treatment facilities that will be necessary.

And we believe, as I said in my opening statement, that through a combination of Government grants, through private user fees, private loans, that over the course of 10 years, we can put together packages totaling \$8 billion through the leveraging so the actual dollar amount from the U.S. Government would not be even half of that but rather significantly less and that we can put these financing packages together.

Ambassador KANTOR. In terms of the sugar, then I will turn to Secretary Espy for the wheat since it is under his jurisdiction, obviously the substitution—potential substitution of HFCS—high fructose corn syrup—in soft drinks for sugar, there is a possibility of Mexico becoming a net surplus producer, something we discussed earlier with the Chair, but let me repeat my answer.

One, it seems highly unlikely at this point, although it is a possibility I know there are folks in the sugar industry that are concerned about it. We are working with the Mexican Government officials as well as we would like to work with this committee in order to try to address that problem in a meaningful way.

Mexican sugar consumption is much larger than their ability to produce. They are an importer, not an exporter. That is probably going to proceed for a number of years. They are forbidden to become a net exporter for the first 6 years. The fact is they are only exporting about 7,300 tons right now. We don't believe they will become a net producer but we would like to address this problem. We believe it is one that needs to be addressed.

The Mexicans have no ability to produce HFCS right now. They have no wet corn millers in Mexico. So we believe it is something we should discuss with the committee and with the Mexican authorities and we are doing that right now.

Mr. SARPALIUS. Thank you.

Secretary ESPY. This was asked by the chairman when you exited to vote, but if I could just repeat my answer on the wheat question, we do have a problem. We have a problem with regard to import from Canada with regard to wheat and in particular Durum, the Durum variety.

We have a problem in that the policies of the Canadian Wheat Board aren't very transparent and we also have a problem when you consider the subsidies for transportation, in particular rail subsidies, which they have which we don't which all serve to undercut price and import more volume of wheat into our market. So we do have a problem.

Now, when we have a problem recognized as such and one that is determined to have materially interfered with our programs, the Secretary has an ability and perhaps even an obligation to consult with the Trade Ambassador and in concert with him forward to the President a request for a section 22 imposition which then goes either on an emergency basis or regular basis into an ITC for review. My international trade section has recommended to me that we request this section 22.

In all honesty, this memo is on my desk for personal review and consideration and I have not yet signed it. Someone, I believe it was Mr. Roberts, said earlier that the longer I am in committee hearings, the less time I have to read and sign. I can assure you that it is a very important memo on my desk and that I will be looking into it soon.

Mr. SARPALIUS. Thank you.

Mr. STENHOLM. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman. All three of you, two gentlemen and one lady have a tough job, a difficult job and I don't envy any of you. However, Mr. Ambassador, 8 months ago, you and I initiated a good faith effort, also the Florida delegation, the Florida agricultural industry negotiations that began with the supplemental agreements with NAFTA.

It is my sincere hope that the supplemental agreements would continue the proper safeguards for agriculture in Florida and guarantee fair competition for this most vital industry. However the side agreements address none of the Florida agricultural concerns.

I realize that many groups involved with agriculture around the United States have endorsed NAFTA and view it as an excellent opportunity to increase their exports to Mexico. However, Mr. Chairman, and Mr. Ambassador, Florida will not gain in agriculture regardless of what Mr. Roberts said under NAFTA like many of the other States.

There is neither a single major agricultural organization of Florida that supports NAFTA nor a single study that states a Florida agricultural benefit by NAFTA's passage. I have been told for months that you are working on problems based upon Florida agriculture.

Mr. Ambassador, my question is quite simple. Mr. Ambassador, what has been done to alleviate these concerns and what will be done?

Ambassador KANTOR. Mr. Lewis, I appreciate your comments, and as you know, we have worked together quite closely as I have with other members of the Florida delegation. We have been meet-

ing regularly in the past week, in fact, with representatives of Florida agriculture both in the citrus and vegetable areas.

We believe that we can effectively address the most pressing issues that had been raised with regard to those two subjects as well as I have just mentioned the sugar subject. I know that was a third.

Frankly, as you know, there is a volume-based mechanism right now in NAFTA. The particular items you are talking about have the longest phaseouts in NAFTA, 15 years and, therefore, the most protected agricultural products, in fact the most protected products we have in the United States.

I also understand there is not complete support for that in the State of Florida among your agricultural organizations or among your delegation. We are going to try to address those effectively. We now have the chance with the implementation legislation, statement of administration action and of course our discussions not only with your agricultural interests but also with the Mexican Government. I would only say that we have been in contact with them on a personal basis twice in the last week on this subject.

Mr. LEWIS. Thank you, Mr. Chairman. Ambassador Kantor.

Mr. Chairman, I have some questions that I would like to have answered in writing. I am very much concerned on how we will ensure adequate food safety inspection. It is my understanding we have only got one FDA 10 miles from the Texas border.

How will you assure effective monitoring through Customs to prevent transshipment? What kind of resources will Customs need to effectively track import surges and what kind of costs are we facing to provide for these resources. So Mr. Chairman, I would like these questions answered in writing.

Secretary ESPY. Mr. Chairman, we realize that the Custom Service officials also behind us are to undertake some of these questions. So they will be next up, I believe.

Mr. LEWIS. Thank you, Mr. Chairman.

The CHAIRMAN [resuming chair]. I thank the gentleman. And I inform the members that they may, through the Chair, submit questions in writing that will be forwarded to the three principals here. If I might follow up on your question, Mr. Lewis, we have Mr. Banks who is the Customs Service Director.

Would you kindly join us at the witness table, Mr. Banks of the Customs Service.

Mr. Banks, there is this question of the agricultural rules of origin in NAFTA, and I assure you they are the tightest I have ever seen in any trade agreement. I used to tell Mrs. Hills that if it is milk from Mexico it should be from a cow that lives in Mexico, period.

So my question to you has to do with the lack of information on how the rules of origin for agricultural products will be enforced. Would you explain to this committee, to the extent that you now have a process, how will the Customs Service enforce the agricultural rules of origin in NAFTA?

Mr. BANKS. Yes, sir. Thanks to the graciousness of the United States Trade Representative, we were involved in the negotiation of this trade agreement. Our sole goal in being involved in those negotiations was to ensure that every provision that was in there

could indeed be enforced, was capable of being administered, and to ensure that those rules of origin were feasible for us to be able to administer in a fairly simple transparent manner, and last, to make sure that we could try to address the transshipment problem that has been so difficult in the past.

We think that the agreement as it is designed right now is probably the very best trade agreement, provides the greatest tools in terms of us being able to actually enforce the rules of origin that are now there, not just the paperwork process but the actual enforcement of these rules of origin.

There is not only the fact that these rules are clearer than they have been in most other trade agreements, but we got unprecedented capabilities to go into the other involved countries to actually go into the factories, the exporters, the manufacturers with auditors with our import specialists and other people to actually view documentation, to review their production, to review their processing and this is really unprecedented in many ways.

So we think at least that we have the opportunity at this point, better than we ever had in the past, to be poised to enforce this, trade agreement to the letter. And that includes the agricultural provisions as well.

The CHAIRMAN. Let me get this for the record. You were a party to working out the process because you would be the one to enforce it. Is that correct?

Mr. BANKS. That is absolutely correct, sir.

The CHAIRMAN. And you are satisfied that it gives you the ability to enforce them?

Mr. BANKS. Yes, sir. We do believe that. I am not going to say there won't be enforcement issues or enforcement problems that will crop up. They do in everything we have, but it gives us greater authority, better tools than we ever had in the past to be able to ensure enforcement.

The CHAIRMAN. I might put in a plug here that Ambassador Kantor could talk to Mr. Panetta at OMB that you need more personnel. That is always helpful.

Mr. BANKS. Thank you, Mr. Chairman.

Ambassador KANTOR. Mr. Chairman, at least the President exempted my office from the 25 percent White House cuts. I can be thankful for that.

The CHAIRMAN. You will need more people also. In line with our questioning we have, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. I, as you know, have been no fan of this agreement and I have been paying a lot of attention. I am one person who knows just how much trouble you are in from what the hard vote is right now.

I was awakened this morning by a radio station from home asking me whether I attended a meeting yesterday where some members claimed that there was kind of a quid pro quo. You were going to fix the wheat problem in exchange for their voting for NAFTA. They wanted to know if I had been at this meeting and what had happened.

Did that in fact happen? Was there some kind of a meeting where this was discussed—are we now tying these things together?

Ambassador KANTOR. We had a meeting yesterday of a number of Members and with me. We discussed a number of issues. Frankly, let me say the wheat problem stands on its own as does the sugar problem.

Mr. PETERSON. Why are people saying different? Why is the press asking me about this and why are other Members of Congress saying that they understand these are tied together.

Ambassador KANTOR. I would have to let the press who are much more able than I to answer that question themselves. Let me just say that the Canadians have captured 25 percent of our Durum market.

As you know, Mr. Peterson, it is a major problem with U.S. farmers. They have captured 70 percent of the Mexican market in 3 years. It was zero 3 years ago. I have talked to Secretary Espy about that. We are both very concerned about it. To the degree that we can address this problem, we will help U.S. farmers and I think we will also help the implementation of NAFTA.

If I might, I will just finish very quickly and not take your time. There are two different agreements. The Canadians have their own separate agreement with the Mexican agriculture with the NAFTA—

Mr. PETERSON. That is one of my problems with NAFTA.

Ambassador KANTOR. That has preserved section 22, though, for us. Without it, we wouldn't have it and frankly during the dairy area we get preferences, which is one of the things that helps us in your neck of the woods, frankly.

Mr. PETERSON. I am skeptical because when I have tried to move forward end-use certificates and some of these other provisions, I have gotten no support out of this administration.

Ambassador KANTOR. This administration supported the end-use certification and it was the Byrd rule that kicked it out of the Senate.

Secretary ESPY. If you don't mind, we supported end-use certificates. We also supported aggressive use of the EEP.

Mr. PETERSON. I give you credit for that.

Secretary ESPY. We authorized a \$32 million measure to EEP to take advantage of the additional imports from Canada on their wheat.

Mr. PETERSON. We appreciate that. What I object to is tying these things together. Now I hear today, and I heard last night, that there is going to be a deal cut with Senator Breaux on sugar. Is that in fact going down? I have heard that from three different people. This stuff is floating all over town. I would like to get this settled.

Ambassador KANTOR. This is my third appearance, Mr. Chairman, if I am not mistaken before this committee. Each one, we have talked about the HFCS substitution problem, we have talked about the citrus problem, the vegetable problem. We talked about the wheat problem, I think, every time.

Each one are problems in North America that we need to address. That makes NAFTA, when it passes, stronger, better for agriculture, and better for building jobs and building our agricultural sector. And so, therefore, if you say that is connected, it is connected in that way and strengthens the agreement.

Mr. PETERSON. Well, it just troubles me when I hear all these things floating around. I mean, I don't know how you are going to pass this unless you do things like this and I just think this is a bad way to go about it. If we really are serious about solving these problems, we would have done them in the side agreements, as Mr. Lewis said. You know, we were told that these are going to be addressed in the side agreements.

They weren't addressed and it makes a lot of us skeptical about what is going on here. So I hope that you are right that these issues are not tied together and this will not be the way this proceeds.

Ambassador KANTOR. Well, if you want to talk, yes, they are together: The stronger the agreement, the more likely it passes, the more likely it will be good for the country which it will be and grow jobs which I think you are committed to and so is this administration.

Mr. PETERSON. My time is up.

The CHAIRMAN. I thank the gentleman.

Let me say, if I might interject, that our colleague from Minnesota has tremendous problems in his area that need to be addressed and I know he gets frustrated for a multiplicity of reasons. But I know that you can't be chasing every rumor and every accusation.

In this town, walls have ears and door knobs have eyes. And we can't be chasing those rumors. But we shouldn't neglect the fact that there is in that area a very serious problem that needs to be addressed to some degree of satisfaction to the northern tier of States that have to deal with Canada.

Secretary ESPY. If I might just say, Mr. Chairman, that this discussion of section 22 predated the meeting that you asked about. I have been in Minnesota and in farm meetings there and talked about section 22. I went to Ottawa and met with Mr. Mayer and discussed section 22 and he objected to it. He objected to the EEP. So these things preceded any trading of votes, if you will. So I would not run toward rumors.

The CHAIRMAN. Let me clarify, Ambassador Kantor, your statement that had Canada not opted out on the agricultural chapter from Canada-United States-Mexico and went with Canada-Mexico, had that not happened, we would have had to do away with section 22?

Ambassador KANTOR. With regard to Canada, we would have to use the NAFTA procedures. Also Canada—they did protect the dairy and poultry. What they did is open up preferences for us uniquely with Mexico and they don't have those preferences. That is Canada's decision and they made it on—I assume in their own best interests, but it was also in our best interests that that happened at least in those two areas.

The CHAIRMAN. Thank you very much.

Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman.

Mrs. Browner, the Clean Water Act is likely to be reauthorized if not before the end of this year, certainly in this Congress. I am alarmed by the tremendous pressure from preservationist groups over putting on farmers mandatory nonpoint pollution guidelines

that are very difficult for them to live with. They are advocating this.

And so my question to you is: How can our farm community be expected to compete against the Mexican agricultural industry in view of new environmental mandates that are being perpetually laid against the agricultural community in this country by the preservationist community and in high measure the EPA itself?

I want to put a caveat on my last statement there because I was probably no gentler with your predecessor than I am with you on that point. I believe that is happening and I would like your comment.

Mrs. BROWNER. Mr. Emerson, we do have the responsibility to enforce the laws that Congress passes and to set the regulations pursuant to those laws. You are right that in discussion of the Clean Water Act reauthorization, there is discussion about nonpoint source pollution.

If we look at our rivers, lakes, and streams since the original Clean Water Act more than 20 years ago, we have done a very good job in terms of point source impacts of degradation to our water quality. However, we continue to have nonpoint source problems. Those problems are of several natures: Urban runoff. Agricultural runoff is not the only one.

In developing and working with the committees on this legislation, we are looking for ways that take into account the unique situation of farmers to make sure that we involve them in the process or hearing from farmers in terms of how they can deal with the runoff issues to make sure that the river systems that they also care about are truly protected and we do not continue to have the degradation of our water bodies in this country.

Mr. EMERSON. Thank you. I would like to pursue this. Obviously, we have very limited time here and everyone needs to be accommodated, but I would like to pursue this particular subject with you because it is one of the most serious reservations I have about NAFTA.

I can understand Secretary Espy and Ambassador Kantor and their profound statements that lead me to believe this would be a good deal for agriculture from the perspectives from which they speak, but I do worry about the mandates that are put upon us by the preservationist community or at least trying to be put on us. I would like to pursue that with you because this is one of the big questions I have as to how this is going to be handled as we look to the future.

Mrs. BROWNER. Certainly.

Mr. EMERSON. Thank you.

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

Mr. Holden. Mr. Minge. Mr. Bishop. Mr. Glickman.

Mr. GLICKMAN. Thank you, Mr. Chairman. I want to say I think you both have done an excellent job today. I have had the opportunity to spend some time with Ambassador Kantor about this and I think your discussion of the entry of the Japanese into the markets south of our border is one that you really need to develop further intellectually.

Because, as you know, your greatest difficulty in passing this thing is not so much with us, it is with the voices of the people in

our districts who have not yet become convinced. Unless you can reach a compelling argument that hits the gut as well as the mind on this issue, you are going to lose.

I think that argument is one that I believe will resonate out there if it is developed better. I want to ask you just a question about this particular issue. If the agreement is enacted, it appears to me that American grains are probably winners. But it will mean that the Mexican import duties on corn will come down over a period of years.

There is no question that we produce corn much more efficiently and productively than Mexico does. They have between 6 and 10 million corn farmers in Mexico. They produce largely for the food market, food grains. The Mexican agricultural policy has been part of a situation to keep prices low so to keep tortilla prices down and other corn items down.

Now, it does strike me that you have to consider what the long-term effect of this is going to be. It seems to me it could be to drive several million Mexican corn farmers out of business over a period of years, maybe not overnight, but over a period of years.

I have heard reports from the Mexican Government that they say, well, that may happen, but we will absorb those into our industrial economy, which of course has a lot of American workers concerned because you are talking about an awful lot of people in that process or it will cause a lot of those people who are amongst the poorest of all in Mexico to come to this country illegally or legally or whatever the case may be, and it will leave Mexico a country which is basically a Third World country without indigenous food producing capability. That is what I call a long-term concern. I would like you to address that if possible.

The other thing, and I don't know if you can do this quickly, the New York Times had a story this morning which you may have seen about the fact that President Salinas is not particularly serious about efforts to raise the basic minimum wage. I think that is one thing that obviously has American workers very concerned as well. I wonder if you could quickly address both of those issues. Thank you.

Ambassador KANTOR. If I could go in reverse order with your permission, one, with all due respect to the New York Times and I am sure a very fine writer, President Salinas, made a speech after the initialing of the side agreements which he committed himself to the President of the United States to commit his administration to passing a law as soon as possible which for the first time in Mexican history would tie real minimum wage increases to productivity, something of course we don't even do in this country. We believe that will happen in very short order and he was very specific about it, not general as the article implied this morning.

Mr. GLICKMAN. You need to respond to that because in the cloak-room people are talking about that article, so you need to respond to that very specifically, then.

Ambassador KANTOR. I hope they are also talking about the article that was also in the Washington Post this morning indicating that companies are moving back from Mexico because they are not able to compete. They are better able to compete up here in the



United States. So there were two interesting articles in the newspapers today. I am more in favor of one than the other.

On corn, and let me try to do it as quickly as I possibly can, it has a 15-year phaseout: 2.5 million metric tons the first year, 3 percent a year increase. Obviously, our corn farmers are more—are efficient but Mexico is going through land reform whether we do this or not. Farmers are going to leave the land. To imply that they can't be absorbed means you believe either we win or lose or they win or lose.

We believe both countries will win economically with free trade. In fact, that is what has been happening all over Latin America. You know, we have a trade surplus with every Latin American Nation. Yet, with only one exception, every one has grown a more stable economy and become more democratized as a result of this trade. Everyone has won.

So with all due respect to those who criticize this agreement, this is one of the strengths of it. In fact, even the Economic Policy Institute who is opposed to this agreement says, by the year 2000, it will slow immigration by 1.4 to 1.6 million people from south of our border which is no small number. And so that would be my answer to your question on that subject.

Secretary ESPY. If I could add just a supplementary comment. I agree with your analysis except for the conclusion because of what Ambassador Kantor just said. It is true, if you apply the doctrine of comparative advantage to our corn farmers, we will take advantage of that in exporting to markets but their farmers won't necessarily be displaced for the very reasons that Ambassador Kantor suggested.

When I went down there 3 weeks ago, we sat with Jaime Serra Puche and the other economists there and they have talked about land reform and they talked about really going to a decoupling proposal where you separate the income support from the quantity designations, so it is more of an income system, taking away the farmer from the land.

They have analyzed this. They are moving to this and they try to prevent the wholesale displacement, but offering them some level of income support even though they might not necessarily grow what they used to grow.

The CHAIRMAN. I thank the gentleman. We have with us from the Labor Department, Dr. Katz.

Doctor, would you join us please at the witness table. I think it would be appropriate at this point due to the question asked by our colleague from Kansas. Doctor, could you let us know what impact NAFTA would have on migrant workers. I guess I could say both ways, but more Mexico to United States.

Mr. KATZ. I think if you look at the situation both in the short run and in the long run, I think NAFTA is going to improve the situation and reduce migration pressure. There has been a lot of somewhat misleading discussion of this. I think the first point is that in reality, with or without NAFTA, there is severe immigration pressure south of the border.

Mexico is doing land reform. It is rationalizing its agricultural system. There are more opportunities north of the border. One will continue to have large immigration inflow coming to the North. We

have tried a number of reforms to improve enforcement, but we are not going to be able to completely control that unilaterally.

The question one has to ask is: What is going to be the difference between having NAFTA or not having NAFTA. In both scenarios, Mexico will be reforming agriculture and there will be pressure. But the key is the main thing that leads to short run increases in immigration pressure are sharp adverse shocks to an economy.

The big jumps in immigration came such as in the early 1980's when Mexico had a severe economic crisis associated with the debt crisis. The big shock that could occur is not the passage of NAFTA, that is part of a continuous process of reform of reducing barriers, that is not going to be a major shock. That is something that has been going on continually.

The big shock that could occur would be the defeat of NAFTA. That would be the major adverse shock to the Mexican economy, and if we are going to look at a worst-case scenario with increases in immigration in the short run, that would be the adverse shock from the negative effects of the Mexican economy from reversing the changes that have occurred through liberalization of NAFTA.

Over the long run, there is no doubt there will be movements out of agriculture in Mexico. And the question in terms of immigration is: How strong is the rest of the Mexican economy going to be? How able is it going to be to absorb the workers? And it is clear that almost every study that has looked at this issue concludes that the Mexican economies will be stronger in the industrial sector with NAFTA than without it. And in the long run, even those who are opponents as Ambassador Kantor pointed out, the Economic Policy Institute as well as those studies that have found positive overall impacts find reduction in immigration.

So in summary, in the short run, there will continue to be major immigration pressure with or without NAFTA. I suspect it will be much worse if we have the adverse shock of not having NAFTA.

The CHAIRMAN. Thank you very much, Dr. Katz. I might add from my personal experience there was a newspaper article that was shown to me by one of my colleagues about the migration out of agriculture in Mexico and that the young people are going to maquiladoras or factories or to the United States or whatever. That is not a phenomenon solely related to Mexico.

What is happening in Mexico is what happened to us in the 1980's, it is just the attachment to the land in Mexico is much more than in most countries in the world. They fought a revolution for land to plant corn. So their attachment to corn and to the land is strong.

But no longer can they survive as a family with 5 acres, 10 acres, 15 acres, or 20 acres growing their beans and their corn and just sustaining their family. That is a phenomenon that is happening now regardless of NAFTA, regardless of us being their neighbors, regardless of anything that we do. No longer in this time can someone survive or maintain their families in an adequate manner from 5 acres, 10 acres, or 15 acres and that is what is happening.

No one from Mexico is going to go south looking for a better life. The only outlet is north. So the recourse that we have is to make things better there so they don't get attracted by the magnet of the United States. They are not going to go south. All of us know that.

So I just thought I would mention that from a member of a family that has lived in that area for 300 years, for whatever it is worth.

Mr. Canady.

Mr. CANADY. Thank you, Mr. Chairman.

Mr. Ambassador, I would like to follow up with you on the same line that Mr. Lewis has pursued. You are probably not surprised that I have the same sort of interests. In your comments, you said that NAFTA is a winner. I want to reiterate something that I have mentioned before.

You know the Library of Congress did a survey of various studies concerning the impact of NAFTA. And in that report that the Library of Congress did, there was a very graphic presentation of winners and losers under NAFTA. And at the top of the list of losers was Florida agriculture.

Now, we have heard that the concerns of Florida agriculture would be addressed in the side agreements. That did not happen. We are still hearing that efforts will be made to address those concerns. I guess time will tell.

And I will say that I don't question your good faith in trying to address those concerns but ultimately the question is whether they are addressed, not whether an effort has been made to address them. And I just want to know what we can do to expect that Florida agriculture is going to move from the column of losers to the column of winners, or at least to a column somewhere in the middle where they are not adversely impacted.

Ambassador KANTOR. Let me make two comments. First of all, we have had, as I told Mr. Lewis, I don't know if you were in the room or not, that we have had meetings just in the last week, not only with the representatives of Florida agriculture, but with representatives of Mexican Government discussing this problem.

As you know, there is a volume-based mechanism now with the 15-year phaseout, the longest phaseout that we have for the particular sensitive products in Florida. The Florida agricultural interests are not satisfied with that. They are concerned, and I say that with due respect to them—and we understand that the side agreements—I don't think we ever committed the—because they would have been not appropriate in the way in the environment and labor standards to reach some mechanism to reach this problem.

However, it is appropriate to strengthen this agreement and to make sure that Florida agriculture which is so important to the Nation's agricultural interests is protected in a meaningful and proper way and that is what we are doing by working with your agricultural interests in the citrus and vegetable area as well as the sugar. Of course, sugar goes beyond Florida as you know better than do I.

It is interesting to note in the last 5 years, as Mexico began to liberalize agriculture, that the exports of fruits in Mexico went up eight times from this country to Mexico as they began to liberalize and got rid of some export licensing requirements. And vegetables about six times.

Obviously we have had more exports going into Mexico as a result of liberalization. I understand the concerns. I don't mean to say they are not important. I mean to say there is evidence, not

academic studies, real-world evidence that agriculture wins under this agreement and it wins in Florida as well.

Now, we will address these seriously. We will work with the delegation as well as the committee as well as the Mexican Government in order to try to reach an agreement that makes sense for both sides.

Mr. CANADY. Well, on Florida agriculture winning under this agreement, I just think you need to know that nobody in Florida agriculture believes that Florida agriculture wins. We had a hearing. The chairman attended the hearing we had in Orlando, and Florida agriculture spoke with one voice in opposition to the agreement as it stands. And I tend to think that the people in Florida agriculture are a better judge of their own interests than others might be.

Secretary ESPY. Could I just add one comment to Ambassador Kantor's response, and that is that you have to put all this in perspective, and that it is not necessarily a zero-sum game because, as the chairman said, as this agreement begins to be implemented and as the incomes rise in Mexico and as the standard of living rises and the population continues to grow and their dietary habits continue to improve, and therefore the ingestion of more fruits and vegetables, they are going to be eating more of what they grow themselves. So the acquisition and consumption of their base will be enhanced.

So I wouldn't necessarily say it is a loser. You have to put it in perspective.

Ambassador KANTOR. I don't want to be misunderstood, Mr. Canady. We are working on this. I can't tell you how many countless hours I have spent and Ambassador Yerxa has spent and others on our staff have spent and we will continue to do it. I don't want to mislead the committee or anyone else who may be listening. It is a difficult problem as you know that it is.

The CHAIRMAN. I thank the gentleman. I might mention this in an aside, as I did when we had a hearing in Florida, that the ups and downs of agriculture are due to weather, climate, market, and everything that happens within our country. Every year there are winners and losers.

I learned that last year, because of climatic conditions in Mexico, it was the best year for selling tomatoes in Mexico from Florida, in the past century they told me. Practically all the tomatoes in Florida were sold in Mexico last year. So that is something that you have with the ups and the downs. I don't know if Mr. Lewis would challenge that.

Mr. LEWIS. Mr. Chairman, I would be very careful before I would challenge the chairman, but I would like to look at those numbers that you saw because the Florida tomato industry took a tremendous hit with Hurricane Andrew as well as several other areas of agriculture and we do grow 50 percent of the tomatoes in the United States.

The CHAIRMAN. If you would look at how much they sold to Mexico, you would see that it was a very profitable year to have a Mexican market.

Mr. LEWIS. I will do that, Mr. Chairman.

The CHAIRMAN. Then we will compare notes.

Ms. Long.

Ms. LONG. Thank you, Mr. Chairman.

Ambassador Kantor, I have a question that I would like to submit for the record regarding the domestic flat glass industry, but since we only have 2 minutes, I think I probably better stick with an agricultural question for both you and Secretary Espy. I have seen some numbers indicating job loss and job gain by industry, but I haven't seen any numbers indicating job loss and job gain by community, like for example rural versus urban.

I would like to know if you have any data on job loss or job gain in rural communities as opposed to in urban settings?

Ambassador KANTOR. We have data. I think Mr. Moos can hold that up—you may have been voting at the time—of job gains in various sectors of agriculture.

Ms. LONG. I have seen those.

Ambassador KANTOR. It doesn't correlate totally to rural areas.

Ms. LONG. I have seen those data. I wonder if you have any net calculations, not just any particular industry, not just in agriculture, but in the aggregate how rural communities are going to be impacted regarding job loss or gain?

Ambassador KANTOR. Well, if you look at States that you know—the answer is, no, not precisely. But if you look at States who have gained in the last 5 years that have a more rural than an urban base, North Carolina would be one. Georgia would be another, although Atlanta of course is a major urban area.

The fact is, their industries as well as agriculture have done very well as Mexico has begun to expand trade with the United States and get rid of these unfair rules and to lower tariff barriers and the numbers are quite frankly dramatic in both of those States as they are in some other States that are more urban in character.

The Commerce Department doesn't cut the standards in quite that way, so it would be difficult to get to your question. But I think common sense would tell us—for instance, the textile is almost, almost with a couple of exceptions totally behind this agreement.

Much of the textile production in this country is, of course, in less urban or exurban areas or not in urban areas so you see that. You see the Cotton Council supporting it. You see milk producers supporting it. So in agriculture and other industries that are more rural in character, you see a lot of support for this agreement. That would be the most common sense answer I could give you.

Ms. LONG. Let me explain to you my specific concern regarding rural communities. It is my understanding that the best scenario for us with the North American Free-Trade Agreement is that the jobs that we lose are lower skilled, lower paying jobs that hopefully would be replaced with higher skilled, higher paying jobs.

In rural communities, it has been economically feasible in the past 15 to 20 years to attract some of the—some manufacturing that produces lower paying, low-skilled jobs and rural communities and farm families have become very dependent upon those jobs. I have concerns that if we are losing those kinds of jobs to Mexico, that at least a short-term impact would be greater on some of the rural communities than on urban areas.

Secretary ESPY. If I could take a stab at that, I would agree with you, if I agree that labor costs constituted the only component of job relocation. And shutting down and moving a factory from rural Indiana to Mexico or rural Mississippi to Mexico, that is simply not the case. I mean, wages is one area to be reviewed but that is just one.

Down in Mexico, in my opinion, and I am sure Ambassador Kantor can correct me if I am wrong, we have concerns about high cost of production including the cost of transportation, the cost or the lack of infrastructure. The cost of the packaging, the cost of the preparations, worker productivity, interest rates, fuel costs. All must be figured into the equation.

So I don't subscribe to the notion that if we have this NAFTA we are going to have a lot of rural industries, particularly data processing companies also shutting down operations and moving. I just don't believe that is going to happen.

Ambassador KANTOR. Let me add one other factor. I am sorry to take the time, but there is a critical question not just for rural but all communities in our Nation wherever people live. Dr. Katz, can correct me if I am wrong.

We will lose 2 million jobs next year in this country no matter what. We will lose them just because of a dynamic economy. World competition. Defense cutback. Technology changes, you name it, it will do it. We will also gain a lot of jobs, a lot not due to NAFTA.

BMW will move into South Carolina. Mercedes-Benz, I think, is going to move into North Carolina. Because of the productivity of our workers, rural and urban, because of the infrastructure that we have, because of financing and insurance and stability of Government and many other factors, that so outweigh wages, you will find that what we need to do is take advantage of what is happening, a changing economy for the benefit of our workers.

We are better off with a NAFTA which opens this market than without it. Without NAFTA, it doesn't get any better.

The CBO estimate also over 15 years, we will lose 200,000 jobs due to NAFTA in this country. That is about 14,000 jobs a year. Infinitesimal when compared to the 2 million.

What we need to do, of course, is to grow markets. We need to make sure that our productive workers have a place to have products to be sold and that will attract, of course, more and more businesses to this country and, of course, create more capital to grow our own businesses.

Ms. LONG. Thank you.

The CHAIRMAN. I thank the gentlelady. We have a slight technical problem. I am informed that in about 5 minutes, we will be beginning a series of votes. The first one of which will take 15 minutes which usually winds up being 20 and then five 5-minute votes which we are looking at the possibility of having to be on the floor from 45 minutes to 1 hour.

I don't know that we can ask our guests to wait 1 hour for us. And then it will be time for other engagements. So my only suggestion is that members who did not get an opportunity to ask questions can draft your questions that you feel you must submit to the Chair, we will submit them and I assure that if we can get all of these stars together again, we will invite them to come and visit

with us again, hopefully in the morning when we are not in session.

Mr. VOLKMER. Mr. Chairman.

The CHAIRMAN. Yes.

Mr. VOLKMER. Is it possible we could have some witnesses here that may disagree with Ambassador Kantor, Secretary Espy, and Dr. Katz and others on the implication of NAFTA?

The CHAIRMAN. That will come when we have the open hearing by the committee. That is for all of our "whoever wants to come for or against."

Mr. VOLKMER. We are going to have—in other words, if we know some economists who strongly disagree with Dr. Katz and have a good reason for that—what about—could I bring some people from Mexico who would testify as to the working conditions down there and what is happening down there to those people?

The CHAIRMAN. An open hearing is an open hearing.

Mr. VOLKMER. Thank you very much.

The CHAIRMAN. We may not be able to accommodate everybody numberswise, but we will have an open hearing.

Mr. VOLKMER. We can bring some people from Mexico.

The CHAIRMAN. I can name you five that will come right now. I don't know that we would want them to come here but witnesses not programmed, yes.

Mr. English.

Mr. ENGLISH. Mr. Chairman, I was, unfortunately, out of the room when Mr. Banks was making some statements with regard to the enforcement area that seems at odds with what I have been told by the Customs Service. And I was wondering if maybe Mr. Banks would be willing to stay a little later and we could deal with those questions before you adjourn the hearing or if we could reconvene immediately after if he could stay.

He was nodding his head that he could stay and we could get into these issues. I think that those are very important as far as agriculture is concerned Mr. Chairman.

The CHAIRMAN. It will be about 1 hour. The Chair has no problem. I don't know the timeframe for Mr. Banks.

Mr. ENGLISH. Could we agree to reconvene, say, in 1 hour if Mr. Banks is willing to stay and we can deal with the enforcement issues?

Mr. BANKS. I will be at your disposal.

The CHAIRMAN. If he is able, I will be happy to reconvene later. I have to go take a picture with a sportsman caucus.

Mr. ENGLISH. I will be happy to chair this if you would like, Mr. Chairman, while you take the photograph.

The CHAIRMAN. I might let the gentleman do that provided he is not his usual—

Mr. GUNDERSON. Dangerous self.

The CHAIRMAN. Emphatic self.

Mr. ENGLISH. I am not going to guarantee you, Mr. Chairman, on that.

The CHAIRMAN. Why don't you and Mr. Banks get together or submit the questions. I would be very happy to reconvene at probably 5:30 p.m. I don't know what his time problem is.

Mr. ENGLISH. Are we having everyone come back?

The CHAIRMAN. What do we have in the morning? Could you be available tomorrow, Mr. Banks? And Mr. Katz.

Secretary ESPY. Mr. Chairman, we have an expert here from the USDA on rules of origin that I would ask to remain subject to your interview.

The CHAIRMAN. I think it would be too much of an imposition. I am informed we don't have a hearing scheduled for tomorrow and we could probably reconvene tomorrow at 9:30 a.m. with the expert—that is a misnomer—not the expert but with Mr. Banks and Mr. Katz and whoever Secretary Espy designates so that the three principals would not have to come.

Mr. ENGLISH. Tomorrow morning?

The CHAIRMAN. Yes.

Mr. ENGLISH. That would be fine.

The CHAIRMAN. At 9:30 a.m.

Ambassador KANTOR. Mr. Chairman, we will have someone here in the morning.

The CHAIRMAN. If you will have someone to be available. I have a couple of items for the record and I have questions for Mrs. Browner. I will submit the questions.

The meeting will stand adjourned until 9:30 a.m. tomorrow morning.

[Whereupon, at 4 p.m., the committee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]



TESTIMONY OF AMBASSADOR MICHAEL KANTOR  
United States Trade Representative

Before the House Committee on Agriculture  
September 29, 1993

THE ADMINISTRATION'S CASE FOR NAFTA

Mr. Chairman, members of the Committee, I am pleased to appear before you today, along with Secretary Espy and EPA Administrator Carol Browner, to set forth the Clinton Administration's case for the North American Free Trade Agreement (NAFTA), with the recently negotiated supplemental agreements.

Two weeks ago, I presented testimony on this issue to the Senate Finance Committee with Secretary of State Warren Christopher and Secretary of the Treasury Lloyd Bentsen, and to the House Committee on Ways and Means with the Secretary of Labor Robert Reich and Administrator Browner. And, last Tuesday, Secretary Espy and I appeared before the Senate Committee on Agriculture, Nutrition and Forestry on this subject.

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 non-tariff 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 four 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 non-tariff 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 non-tariff barriers helps Mexico much more 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 twenty 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 thirty 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 non-tariff 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 non-tariff 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% 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 benefitted 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 U.S. 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 seven 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 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).
- 84% of this growth in exports has been exports for Mexican consumption.
- 400,000 U.S. jobs related to exports to Mexico were created.

The success of the past seven years has occurred even though Mexican trade barriers -- tariff and non-tariff -- 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 seven 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 U.S. 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 non-tariff 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% 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 non-traded sectors, such as bakers, which do not compete with Mexico at all.

We believe the critics are looking at the future through a rear view 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% and a full range of non-tariff 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. The program thus created an artificial "export platform" in Mexico, with products assembled in maquiladora plants being required to be exported to the U.S. 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 U.S. to sell into Mexico. Non-tariff barriers -- licensing, citizenship requirements, and a host of other regulations were especially hard on small businesses in the U.S., 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 U.S. 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% of our imports from Mexico already enter duty-free. Our average tariff on imports is only 4%.

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 non-tariff barriers in a number of key sectors where the U.S. 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 could 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 preferential 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 five 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 non-tariff barriers. NAFTA reduces or eliminates numerous Mexican non-tariff 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 non-tariff 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 fourteenth year after the Agreement takes effect. Also at the beginning of the fourteenth 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, non-fat 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:

- o 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 than ours.

- o 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.

- o 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.

Enhancing Regional Health and Safety. Next to arguments about possible job losses, no issue has been more emotional in the debate than the unfounded charge by opponents that NAFTA undermines the ability of the U.S. government, and the states, to establish and enforce their environmental, health or safety laws and maintain high standards. Opponents repeatedly raise the specter of Mexican fruits and vegetables covered with DDT or other prohibited pesticide residues, and wrongly suggest that we will not be able to stop their implementation.

NAFTA does not require the federal government to lower its environmental, health and safety standards. Indeed, NAFTA makes explicit that each government may establish the levels of

protection for human, animal or plant life or health that the government considers to be appropriate and that any work under the NAFTA to make standards compatible among the three countries is to be done "without reducing the level of safety or of protection of human, animal or plant life or health, the environment or consumers." Moreover, under the NAFTA, state and local laws are free to differ from federal laws, and can be more stringent than those laws.

Another favorite scare tactic of NAFTA opponents is to claim that NAFTA will require us (or our states) to adopt international standards. In fact, the NAFTA explicitly provides, in Article 713, that a party can maintain measures more stringent than international standards.

While granting the federal government and the states broad discretion to set their own environmental, health and safety standards, NAFTA does require governments to meet certain elementary requirements when applying laws and regulations to achieve the government's chosen levels of protection in order to safeguard against blatant trade protectionism in the guise of a health regulation. For example, NAFTA requires that the sanitary or phytosanitary measure used have a scientific basis and be based on a risk assessment appropriate to the circumstances. This is a reasonable requirement. (The term "sanitary or phytosanitary measure" is the technical term for laws and regulations to protect human, animal or plant life or health from such risks as plant or animal pests or diseases or from contaminants in food.)

Our trading partners have repeatedly sought to exclude perfectly safe U.S. products from their markets by citing false "health" pretexts. The NAFTA will help ensure that they cannot unfairly exclude U.S. exports. At the same time, the NAFTA obligations do not threaten U.S. sanitary and phytosanitary measures, since our regulatory system and that of our states already meet the NAFTA requirements.

Consequently, and contrary to the claims of its opponents, NAFTA poses no threat to such U.S. laws as the Delaney Clause. (Under the Delaney Clause, Congress has decided that zero tolerance is the acceptable level of risk from carcinogenic residues.) That is a judgment we are free to make under the NAFTA, which expressly allows each country to choose the level of risk it will accept in sanitary and phytosanitary measures.

Far from weakening environmental, health and safety standards, the NAFTA and the supplemental agreements affirmatively encourage our three countries to improve and enhance protection of health, safety and the environment. The supplemental agreement requires the signatories to "ensure that [their] laws and regulations provide for high levels of environmental protection" and to "strive to improve them", and creates a framework for working cooperatively

to harmonize our standards upwards. It also contain commitments for effective domestic enforcement of environmental and labor health and safety laws, as well as a dispute settlement system, backed ultimately by the possibility of trade sanctions, to expose and remedy problems of weak enforcement of such laws.

In short, it is clear that we are far better off in the effort to improve protection of the environment, health and safety with the NAFTA.

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 non-discriminatory 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% of the U.S. work force, and exporting, by a conservative estimate, \$34 billion in 1990.

#### **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.

On September 14, 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 are ground-breaking. 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 Committees 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.

#### **Import Surge and Other Safeguard Protections**

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. The understanding on import surges establishes a new mechanism -- we refer to it informally as an "early warning system" -- for consultations among the NAFTA countries and for examining economic factors, including employment, in the region. It is meant to anticipate national trade measures, authorized under the NAFTA, to respond to increased imports. For example, a country might call for consultations and a joint examination in the committee as a result of declining employment in a particular industry.

The NAFTA itself contains several important provisions to safeguard a country's industry and workers against import surges.

- o *A bilateral safeguard mechanism* permits the "snap-back" to pre-NAFTA or MFN tariff rates for up to three years -- or four years for extremely sensitive products -- if increased imports from Mexico are a substantial cause of or threaten serious injury to a domestic industry.
- o *A global safeguard mechanism* allows the imposition of tariffs or quotas on imports from Mexico and/or Canada as part of a multilateral safeguard action when imports from either or both countries are a substantial cause of or threaten serious injury to a domestic industry.
- o *Sensitive agriculture products* are handled specially in the form of tariff-rate quotas, where high MFN tariffs kick in above a specified quantity of imports.
- o *Sensitive textile and apparel products* also have special safeguard provisions to respond to those industries needs.

The Working Group established under the agreement will consider how well NAFTA's safeguard provisions are working and make recommendations for revisions, as appropriate.

Overall, the supplemental agreements strengthen NAFTA, and represent an unprecedented commitment to cooperate on these issues in connection with a trade agreement.

#### **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 recently made by my friend and colleague, Secretary of State Warren Christopher: "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.

#### Conclusion

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.

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.

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 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.

That concludes my testimony, Mr. Chairman. I would be pleased to answer any questions.

**TESTIMONY OF  
CAROL M. BROWNER  
ADMINISTRATOR  
U.S. ENVIRONMENTAL PROTECTION AGENCY  
FOR THE  
COMMITTEE ON AGRICULTURE  
U.S. HOUSE OF REPRESENTATIVES**

**SEPTEMBER 29, 1993**

Mr. Chairman, I appreciate your invitation to address you and your committee on the environmental aspects of the North American Free Trade Agreement (NAFTA) and the Supplemental Agreements to NAFTA. As you well know, this trade agreement is controversial, and you will be hearing many arguments for and against it. U.S. Trade Representative Kantor has done an excellent job of sorting out these arguments and explaining the Administration's strong case for approving NAFTA, so I won't attempt to cover the same ground.

My area of expertise is environmental protection, and I believe my record at the Federal and State level demonstrates my commitment to the environment. It is in this context that I say to you with confidence, that NAFTA, in concert with our supplemental environmental activities, will benefit the environment of all three countries involved by providing the tools to produce positive change and to protect U.S. citizens.

NAFTA will benefit the environment because it is the first trade agreement ever negotiated that acknowledges the important linkage between trade and the



environment, and in so doing establishes an important precedent for future bilateral and multilateral agreements. When President Clinton decided to support the NAFTA, he also made several important commitments regarding the environment. I am here to let you know what our strategy is.

### CURRENT BORDER CONDITIONS

The need for NAFTA is nowhere more obvious than along the Rio Grande. In March, I visited this area and met with Mexican President Salinas to discuss the environmental devastation afflicting both sides of the border. I saw raw sewage floating in the river. I saw children splashing in polluted puddles and women washing clothes in contaminated water. I saw people using toxic waste barrels to collect drinking water. I talked to people about foul air, and about their concern over the possible link between the polluted environment and the elevated incidence of birth defects in the region.

We have the opportunity to preserve and enhance the existence of the Rio Grande, one of North America's richest ecosystems. Along its banks, the Los Angeles Times Magazine once described "...massive cathedral canyons, bird-watching meccas and ancient semitropical forests where endangered ocelots and jaguarundis hide from tractors and freeways." But the Rio Grande is threatened. Almost 100 million gallons of untreated or inadequately treated human waste enter the river each day from the

Mexican border towns of Ciudad Juarez, Nuevo Laredo, Reynosa, and Ciudad Acuna, and this in turn flows into the U.S.

This Administration is responding. The Clinton Administration budget request for FY 1994 includes an interagency clean-up package totalling about \$230 million to address environmental problems in the 2,000 mile U.S.-Mexico Border region. EPA border area initiatives total \$164 million, with an additional \$67 million being requested for the Department of Agriculture, Department of the Interior, Department of Health and Human Services, the Export-Import Bank, the International Boundary & Water Commission (IBWC), and the U.S. Agency for International Development.

The projects identified for funding by EPA fulfill principal obligations set forth under the Integrated Environmental Plan for the U.S.-Mexico Border, First Stage (1992-1994). During FY 1994, EPA's request includes \$70 million for continued construction of the San Diego/Tijuana wastewater treatment facility; \$10 million for the construction of a wastewater treatment facility at the New River in California's Imperial Valley; \$5 million to expand the capacity in the Nogales wastewater treatment facility in Southern Arizona; and \$5 million for other potential border projects.

In addition, \$60 million has also been set aside to sustain EPA's commitment to assist in establishing wastewater systems for more than 250,000 colonia residents

in Texas and **New Mexico** whose homes do not have sewage and drinking water hookups. Assistance will be provided through direct grants to the Texas Water Development Board and the New Mexico Environment Department for projects in their respective states. An additional \$25 million is requested for Farmers' Home Administration grants to provide safe drinking water infrastructure for U.S. colonias in Texas, Arizona, and New Mexico.

To sustain EPA's efforts to promote environmental protection in the border region and expand the agency's bilateral environmental cooperation with Mexico, \$14.1 million has been requested in the areas of technology assistance, training and enforcement.

### GREEN PROVISIONS

The following are NAFTA's major environmental provisions:

- NAFTA creates unprecedented linkages between trade activities and environmental protection and sustainable development goals, far beyond those in any previous agreement.
- In the NAFTA preamble, Parties commit to promote sustainable development, to undertake NAFTA activities in a manner consistent with conservation and

environmental protection, and to enforce environmental laws and regulations. This is the first time such commitments have been made in a trade agreement.

- NAFTA is the first trade agreement to address the environmental aspects of investment. NAFTA specifically states that nothing in its investment provisions shall prevent a Party from maintaining requirements which ensure that investment is undertaken in a manner sensitive to environmental concerns. NAFTA also, for the first time in a trade agreement, attempts to discourage Parties from attracting investment by lowering or relaxing health, safety or environmental standards.
- NAFTA is the first trade agreement to explicitly give precedence to obligations in certain international environmental agreements, including the Montreal Protocol, the Basel Convention, or the Convention in International Trade in Endangered Species of Wild Flora and Fauna (CITES). Under the NAFTA, a Party may impose trade measures required by these agreements that might otherwise be contrary to NAFTA rules.
- NAFTA achieves a major U.S. goal in negotiating the agreement's texts relating to standards (the Sanitary and Phytosanitary Measures [SPS] and Technical Barriers to Trade [TBT] Chapters of the NAFTA). NAFTA ensures that the integrity of U.S. regulatory processes would be fully maintained and that our

ability to establish, maintain and enforce our safety, health and environmental standards--as well as that of our States and localities-- would be preserved. This was achieved through our direct participation, and the participation of the Food and Drug Administration, in addition to detailed and constructive comments from the environmental community.

- Specifically, the SPS and TBT texts explicitly acknowledge each country's right to:
  - establish the level of health, safety or environmental protection it deems appropriate.
  - adopt and enforce measures necessary to achieve its chosen level of environmental protection, including measures more stringent than international standards.
  - determine whether another country's standards achieve a level of environmental protection that is equivalent to its own.
  - operate domestic approval systems for food additives, pesticide residues, and other substances in food, and to prohibit marketing of food

containing such substances until the required approval (e.g., a tolerance for a pesticide residue) is granted.

- Both the TBT and SPS texts also provide:
  - that countries use international standards, but only if those standards achieve the U.S. levels of protection, and that countries work together to make standards compatible, but contain safeguards ensuring that there is no reduction in the level of health, safety or environmental protection.
  - that in a dispute settlement procedure involving environmental standards, the challenging party has the burden of proof in establishing that a measure is discriminatory and without any scientific basis.
- Furthermore, the TBT and SPS chapters, for the first time in a trade agreement, provide for parties to work jointly to enhance the level of health, safety and environmental protection, and to establish committees to facilitate that enhancement.

- The NAFTA provides that the Party defending an SPS or TBT measure can always choose to have the dispute heard under the NAFTA and not the GATT. This was an unprecedented waiver by the Parties of their GATT rights.
- The NAFTA dispute resolution provisions provide for Scientific Review Boards, composed of scientific or environmental experts that may be called upon to assist dispute panels. Their reports will be made public at the same time as the panel report.

### ENVIRONMENTAL SIDE AGREEMENT

NAFTA will benefit the environment for many reasons. Most recently, the new supplemental agreement is a remarkable achievement in its own right. The agreement creates tools to require countries to enforce their environmental laws. It also establishes the North American Commission for Environmental Cooperation, which will help protect and conserve the environment in many important and unprecedented ways:

- The Commission will facilitate cooperation between the NAFTA countries on the full range of environmental issues, both in the border areas and throughout the environments of the three countries. This will lead to earlier and more effective solutions to environmental problems.

- A Council of environmental ministers from each country will serve as a forum for discussing and making recommendations about important environmental issues. These may include life cycle management, also known as production process methods, transboundary environmental impacts, and ecosystem protection.
- The independent Secretariat, made up of staff from all three countries, will report regularly on significant environmental questions confronting the countries, such as degradation of rivers and airsheds, as well as on the state of the North American environment as a whole. The Secretariat's reports will identify problems and trends, create a common factual basis for analysis, and create the grounds for further international cooperation.
- The Agreement will strengthen national enforcement of national laws through a variety of means, including an obligation for each country to effectively enforce its environmental laws. That obligation is backed up by an annual report of enforcement activity, opportunity for citizens to point out lapses in enforcement and ultimately a pathbreaking dispute settlement mechanism with possible sanctions against the countries. In addition, cooperation on enforcement matters will lead to better enforcement efforts. There is also a related obligation to maintain sufficiently high levels of environmental protection.



- The Secretariat will monitor on an ongoing basis the environmental effects of the NAFTA. This function is unprecedented and its effects will be far-reaching. The monitoring will focus attention on any problems that may arise and provide a better understanding of the relationship between environment and trade in general. In addition, the Secretariat will coordinate with the NAFTA Free Trade Commission and otherwise seek to ensure that the NAFTA proceeds in an environmentally sensitive manner.
- The Agreement also promotes public participation and transparency in the development and implementation of environmental laws--themes which run throughout the Agreement.

In these and other ways, the Commission not only will protect the environment of the U.S., Mexico and Canada, but also will exert a strong influence on future environmental relationships--including those relating to trade--among other countries around the world.

#### **BORDER INFRASTRUCTURE FINANCING**

I would now like to turn to the issue of border infrastructure financing and the administration's strategy to improve and expand basic environmental services in the border area. NAFTA has focussed long overdue national attention on the environment

of the U.S.-Mexico Border. This Administration intends to continue to focus its attention on the U.S.-Mexico Border environment after NAFTA is implemented.

The need for a coordinated public-private response to financing border infrastructure is compelling. The high costs of prevention and clean-up in the border area accurately mirror the region's high relative public health and ecological risks. Yet the residents of the border area simply cannot afford these costs by themselves.

Meeting this challenge requires a comprehensive approach that focuses resources on the highest priority problems, allows for maximum participation of local citizens and organizations, and taps the expertise already existing on the Border.

The Administration envisions an approach with a Border Environment Administration or BEA at its center. This institution would coordinate and oversee environmental infrastructure projects and assemble financing packages for environmental projects. A second institution, the Border Environment Finance Facility or BEFF would be created to serve as one of several sources of financing for environmental projects approved by the BEA. The BEA would initially focus on wastewater, drinking water, and solid waste projects.

Sources of available financing in addition to the BEFF include the private sector and other government support in the form of grants, below market loans and

guarantees. It is important to stress that the BEA will be looking to the private sector as a major source of investment capital, reducing federal government outlays in the process. The BEA will seek adoption of user fees and revenue bond financing to the maximum extent possible. However, directly accessing the private financing will still not be a practical option as a sole source of financing for most border communities. The BEFF serves as an alternative financing mechanism which will leverage U.S. and Mexican funding through borrowing in international capital markets.

The basic function of the BEFF would be to issue loans or guarantees to special purpose corporations, Mexican government agencies and U.S municipalities.

#### **NEW BORDER ACTION PLAN**

As part of the Administration's NAFTA package, we are working with a number of other federal agencies including HHS, Interior, Agriculture, and Commerce to develop a Border Action Program.

The Border Action Program (BAP) will build on the activities of EPA and other federal agencies who are currently sponsoring environmental programs along the border. The BAP will build on the environmental cooperation started under the 1983 "LaPaz" Agreement on Environmental Cooperation in the Border Area, but will move from a planning stage to an action mode. Although the Plan still needs to be

developed, we've already undertaken a number of cooperative activities which will set the stage for future progress, by accelerating some of the projects called for in the current border plan.

For example, we have developed a binational database, for tracking hazardous waste shipments from the maquiladora industry on both sides of the border. This database promises to be an essential tool for monitoring compliance with hazardous waste shipment laws on both sides of the border, and it has already proven its usefulness: On June 22 of this year, the U.S. brought its first three enforcement cases for hazardous waste tracking violations developed from using this database.

We have been working to increase binational interaction and cooperation in investigating environmental violations. This cooperative interaction has already led to an increasing number of enforcement actions against illegal hazardous waste shippers. Now that Mexico has put into place a new organization which institutionalizes a professional environmental enforcement program, we expect this kind of cooperation to continue to grow.

The BAP will also expand the scope of the current Border Plan to include greater attention to environmental health and conservation issues and focus on important priorities -- environmental justice, ecosystem protection and partnerships between the federal government and local public and private agencies.

In the near future we can complete development of a framework for the Border Action Program and provide highlights of some of the important programs it will include. We will also be consulting with the appropriate Mexican officials in this process since clearly the environmental and health issues in the Border require shared solutions. Recognizing the importance of coordination in addressing the Border's complex environmental problems, I intend to examine options for establishing an EPA office on the Border.

### ECONOMIC GROWTH AND ENVIRONMENTAL PROTECTION

Finally, I believe NAFTA will benefit the environment because the economic growth that it will engender, in our own country as well as Canada and Mexico, will provide the necessary resources to improve and enforce environmental protection. This point is particularly critical in terms of Mexico. NAFTA will help generate more economic activity in Mexico thus expanding jobs, incomes, and opportunities throughout the entire continent. Without NAFTA, it is anticipated there would be a reduction in U.S. exports and related jobs. Mexico could suffer capital flight, disinvestment, and a loss of confidence in its economy. A less economically healthy Mexico would be less able to afford the high costs of environmental protection.

**CONCLUSION**

As I have discussed, approval of NAFTA will provide the impetus for many significant environmental improvements in all three countries, and particularly along the U.S.-Mexico border. There are unprecedented environmental requirements and goals in both NAFTA and the Supplemental Agreement. Without NAFTA, all this progress will be lost. I strongly urge you to take the points I've made into consideration in your deliberations and follow through with support for this historic agreement. Mr. Chairman, I will be happy to answer any questions you or the other members of the Committee may have. Thank you.

Statement of Mike Espy  
Secretary of Agriculture  
Before the  
House Agriculture Committee

September 29, 1993

Mr. Chairman, members of the committee, I am delighted to be here today, joined by my colleagues Administrator Carol Browner and Ambassador Mickey Kantor, to testify before the House Agriculture Committee, a committee that I am proud to have served on. Although I am no longer a member of your Committee, as Secretary of Agriculture I share with you the responsibilities of helping U.S. farmers and ranchers to be as competitive as they can be and ensuring a safe and affordable food supply for our nation's people. I welcome, therefore, this opportunity to tell you why President Clinton and I support the North American Free Trade Agreement, and to tell you why we believe this agreement is a good deal for America, and it is a good deal for American workers, especially for America's farmers and ranchers.

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 NAFTA deserves your support.

Support for NAFTA is not a partisan issue. President Clinton was joined by three former Presidents, representing both major political parties, to announce their bipartisan support for NAFTA. President Clinton, my Cabinet colleagues, and I are speaking out about NAFTA to educate the American public about the benefits of NAFTA for this nation. So in judging NAFTA, let's look beyond the rhetoric-- to look at NAFTA's positives, and its negatives.

There is an old saying that "politics is local." And there is always the temptation for each of you, as members of Congress, to judge legislation not by its benefits for the country as a whole, but by its effects on your district. Over forty state Governors-- the Governors of many of your states-- support NAFTA. Their offices serve as state economic development offices. And they believe that their states--your states--will benefit from NAFTA. And forty state Commissioners, Secretaries, and Directors of Agriculture have announced their support for NAFTA. Their organization, the National Association of State Departments of Agriculture became a member of the "Ag for NAFTA" coalition. They recognize that U.S. agriculture will benefit from this agreement. These state leaders have joined our President and many other national leaders in supporting NAFTA. Why? Because NAFTA is good for our country and good for our people. NAFTA offers real hope for America to take a giant step forward towards improving our global competitiveness.

### Why the United States needs the NAFTA

We believe that NAFTA will create a net gain of 200,000 higher paying U.S. jobs in the next two years alone. While many people across America have heard that NAFTA will create American jobs, 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.

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 than 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.

Recently, 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.

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. Mexico's median age is only 19, compared with a median age of 33 for the United States and Canada, and Mexico's population growth rate is, and will continue to be, significantly higher than ours. Also, even though Mexico's tariffs have dropped significantly over the past few years, their tariffs are still 2 1/2 times higher than ours. The average U.S. tariff on goods from Mexico is only 4%, while the average tariff on goods from the United States to Mexico is 10%.

NAFTA may benefit U.S. agriculture even more than it benefits other sectors of our economy. The average Mexican tariff on U.S. agricultural products is about 13% while U.S. tariffs on Mexican agricultural products average about 4 1/2%. Additionally, Mexico imposes import licensing restrictions on many agricultural products that serve as a greater barrier to agricultural trade than many tariffs do. We practically have a free trade agreement with Mexico already-- but it only runs one way, with the free trade flowing from Mexico to the United States.

Under NAFTA, Mexico must eliminate these high tariffs--completely. And Mexico's



import licensing system will no longer apply to U.S. agricultural products. 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.

### NAFTA is Good for our Country

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.

We all know that NAFTA is a free trade agreement, but in all the debate I think we may have lost sight of what this really means. Plain and simply, NAFTA will give U.S. goods preferential access to the Mexican market. At the end of the transition period, U.S. goods will enter Mexico duty free, while goods for all non-NAFTA countries will still face Mexico's high tariffs, and will still be subject to its import license restrictions.

There will be winners and losers 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--U.S. goods will enter Mexico without being subject to the tariffs and non-tariff 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.

Let me point out that the GATT is not a substitute for NAFTA-- the two agreements complement each other. We are committed to the successful conclusion of the Uruguay Round, and to the implementation of NAFTA because of the tremendous benefits increased market access holds for American businesses and American workers.

Ambassador Kantor makes the case for NAFTA extraordinarily well. Let me leave for him the opportunity to tell you about NAFTA's benefits for our nation as a whole. And Administrator Browner has told you why, environmentally speaking, NAFTA's groundbreaking environmental provisions are necessary. Necessary not only in terms of their benefit to our nation's and the world's environment, but necessary also to place American workers on a fair and equal playing field in economic competition. So, Mr. Chairman, let

me focus my comments if I may, on what I believe NAFTA will mean to American agriculture.

### What NAFTA Means for U.S. Agriculture

Increased farm income, more U.S. agricultural jobs, and greater economic security. In basic terms, that is what NAFTA means to American agriculture. No one can deny that the future for jobs in this country is unmistakably tied to exports. Nor can we deny the fact that the future of farm income is tied to agricultural exports.

American farmers and ranchers have much to gain from NAFTA. Agricultural 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, 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.

Overall, we believe about 111,000 new jobs will be created to support increased agricultural trade with Mexico over the next fifteen years. We believe up to 56,000 of these additional jobs on the farm and in the food industries will be created because of the effects of NAFTA. The gains to be realized by U.S. agriculture will benefit all of rural America.

And these gains will be across commodities--The American Farm Bureau, the National Corn Growers, the National Milk Producers Federation, the National Broiler Council, the American Soybean Association, the Rice Growers Association of California, the National Food Processors Association, the National Pork Producers Council, the National Cattlemen's Association, the National Cotton Council, and many, many, others have endorsed NAFTA.

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. Without NAFTA, those 56,000 NAFTA-created agricultural jobs may 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 could also 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.

### Separating the Facts From the Myths About NAFTA

Now, I would like to tell you, in very broad terms, about 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 non-tariff 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.

NAFTA also does not require any changes in the operation of U.S. domestic farm programs. I should point out, however, that preliminary estimates indicate that roughly \$3.2 billion will be saved in deficiency payments over the next fifteen years because of NAFTA. Even after accounting for lost tariff revenue on agricultural products, the savings in the agricultural sector, is likely to result in a net budgetary savings of more than \$2 billion for the American taxpayer.

### **The U.S. Will Continue to Protect the Safety of Our Consumers and of Our Food Supply Under NAFTA**

Some opponents of the agreement have questioned the safety of imports of agricultural products under NAFTA. 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.

### **NAFTA Provides Strong Rules of Origin**

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 U.S.-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.

### NAFTA Protects American Jobs and Helps American Workers

I have already told you about the economic benefits we expect from NAFTA and about the 200,000 American jobs we expect it to create in its first two years. But I know, as you know, that although the net-effect in terms of job creation will be very positive for this country, there will be some whose jobs and whose industries will be affected negatively by this agreement. Even though we expect a net-gain of 56,000 agricultural jobs because of NAFTA, some jobs will be lost. Now let me tell you what the NAFTA package does to help those whose industries may be injured by increased imports from Mexico.

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. These agreements were negotiated with the specific purpose of eliminating artificial advantages of doing business in Mexico rather than in the United States.

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.

These agreements are only a part of this package. 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.

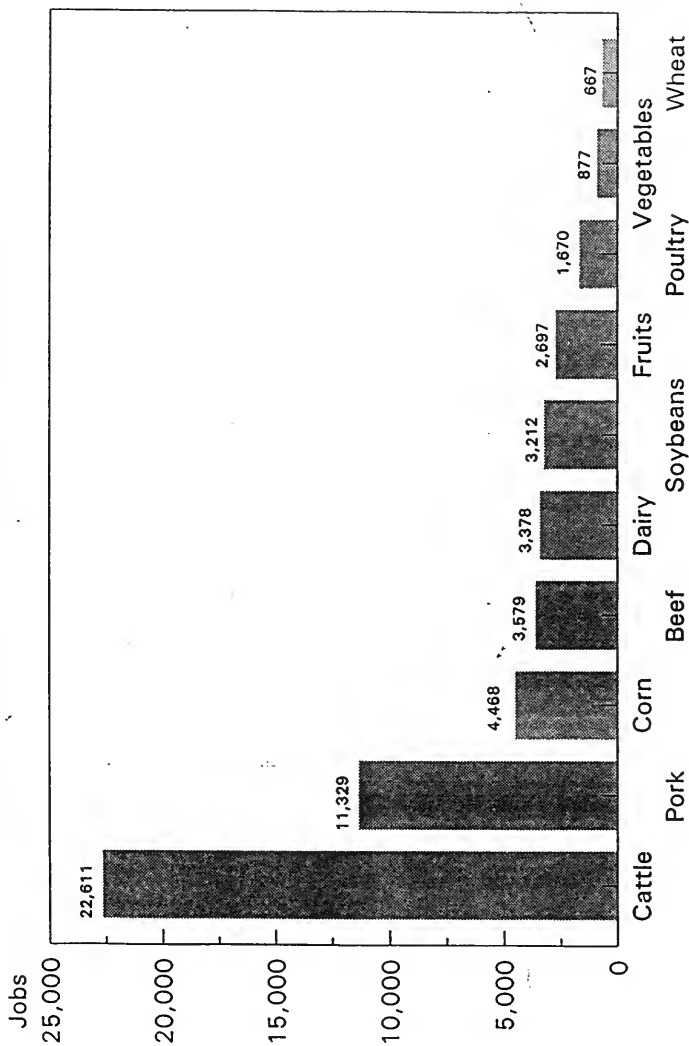
Mexico, in particular, represents an agricultural market of great growth potential. Income growth and the emerging demand for better, more diverse diets already present substantial opportunities not present in the relatively mature U.S. and Canadian markets, and Mexico's population is growing at a much 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.

(Attachment follows:)

# 56 Thousand Jobs Created Due to Agricultural Exports With a Full NAFTA Phase-In



Source: U.S.D.A.


 CITIZENS  
TRADE  
CAMPAIGN

600 Maryland Ave. SW #202W ■ Washington, DC 20024 ■ 202/554-1102 ■ 202/554-1654 (fax)

September 13, 1993

Honorable Mickey Kantor  
U.S. Trade Representative  
600 17th Street, NW, Room 209  
Washington, D.C. 20506

Dear Ambassador Kantor:

A great deal of discussion has occurred in Washington, D.C. about the environmental impacts of the proposed North American Free Trade Agreement (NAFTA). However, environmentalists at the local and state level have concerns with this agreement, and very little consultation has been undertaken with us.

The NAFTA could impact and weaken many of the progressive laws and policies we have worked for on a national, state and local level. We were hopeful that strong side agreements to NAFTA would be negotiated, but instead the major emphasis has been on the establishment of a North American Commission on the Environment (NACE) which does little to address the serious environmental problems within the NAFTA itself.

The following are some of the problems with NAFTA which we believe must be addressed:

- 1) State and local laws impacting trade that enact stricter environmental standards than international dispute resolution standards could be challenged as illegal trade barriers. If held to violate the NAFTA, the U.S. would be required to eliminate such laws. States and localities would have no standing under NAFTA Chapter 20 to defend these challenged laws. We do not believe that the federal government can be relied on to adequately defend our interests in such disputes.
- 2) State and local procurement laws and policies designed to create "green markets" for recycled materials, energy conservation technologies, and other environmentally desirable products and services could be subject to challenge in front of a trade tribunal. Recycling, waste reduction, and energy conservation goals will be much more difficult to meet.
- 3) The energy provisions of NAFTA protect subsidies for oil and gas, but do not afford comparable treatment to renewable energy sources or energy conservation. Our efforts to promote local and state energy policies which create more jobs and reduce environmental impacts will be undercut by these provisions.
- 4) Laws we have worked to pass such as the U.S. Marine Mammal Protection Act, the Driftnet Act and other wildlife conservation laws could be subject to challenge as illegal trade barriers because they regulate trade to prevent products from entering our markets which are produced or harvested in



environmentally damaging ways.

5) Efforts to conserve our forests through raw log export bans, and to otherwise restrict the export of natural resources, such as water and fish, could be undercut as unfair trade practices.

6) By failing to include strong provisions in the agreement to stop countries from creating "pollution havens" to attract industry based on lower standards or lax enforcement, pressure will occur on local and state regulators within the U.S. to reduce standards and enforcement here. Companies will hold out the threat of moving offshore to avoid their environmental responsibilities in the United States.

7) The agriculture provisions of the agreement will promote corporate control of food production at the expense of family farmers and more sustainable means of production, such as organic and energy saving methods. Efforts to reduce pesticide use and pass "circle of poison" legislation will be undermined.

8) The agreement ignores the "polluter pays" principle, relieving corporations which have and will benefit from increased trade of their responsibilities to clean up existing and future environmental impacts on the borders and elsewhere. Without a source of new funding generated from the agreement, taxpayers will be forced to subsidize corporate pollution in Mexico and the United States.

9) Right-to-know requirements for workers and communities must be in effect and enforced in all three countries, and parties responsible for toxic waste must be financially liable for its clean up.

10) Patents and other intellectual property of corporations receive strong protection, but indigenous peoples receive no recognition for their role in protecting biological diversity through their nurturing of plant species.

11) The enforcement process in the agreement for protection of intellectual property rights is much stronger than the cumbersome and limited provisions for enforcement of environmental rights proposed in the environmental side agreement.

12) The agreement ignores the "precautionary principle" which recognizes the need for environmental regulation and initiative (often taken at the state and local level) in the face of scientific uncertainty. Laws established by democratic means such as referendum, or "zero risk" consumer preferences could be challenged as illegal trade barriers and weakened.

13) The dispute resolution process for NAFTA is undemocratic, preventing public participation and frustrating democratic accountability.

Generally, the proposed NAFTA agreement puts the interests of multinational corporations above those of people, local and state governments, and the democratic processes by which protection of the environment and human health can be achieved.

A trade agreement which protects democratic institutions, puts environmental protection first, and is truly directed to sustainable development and pollution prevention (addressing causes rather than symptoms) would merit the support of Americans who care about

the environment. We encourage you to recognize the fundamental flaws of the proposed NAFTA, the impossibility of addressing these problems by narrow environmental side agreements, and thus the need to dramatically recast the NAFTA to address these concerns.

Sincerely,

**Action Coalition Helping to Achieve a New Global Equality**  
**African Student Alliance, Colorado University**  
**Akwesasne Environmental Project**  
**Alabama Citizen Action**  
**Allen, Lippes, and Shown, Buffalo**  
**Alliance for a Paving Moratorium**  
**Animal Rights Community**  
**Arctic to Amazonia Alliance**  
**Arizona Citizen Action**  
**Arkansas Citizen Action**  
**Athens County Greens**  
**Ballston Lake Improvement Association**  
**Barnard Columbia Earth Coalition**  
**Barry Commoner Center for the Biology of Natural Systems**  
**Baytown Citizens Against Pollution**  
**Bi-County Concerned Citizens**  
**Bluffland Environmental Watch**  
**Boulder Residents for the Elimination of Air Toxics and Hazardous Emissions**  
**Boulder Toxics Education Project**  
**Brooklyn Group Against Spraying Pesticides**  
**Brooklyn Recyclers Against Garbage Incineration**  
**Buckeye Forest Council**  
**Buffalo Green Party**  
**California Citizen Action**  
**California Clean Water Action**  
**California Greenpeace**  
**California Public Interest Research Group**  
**Cameron Committee for a Safe Environment**  
**Campaign to Save Niagara**  
**Cascade Holistic Economic Consultants**  
**Casper White Rose Society**  
**Center for Community Action and Environmental Justice**  
**Central Oregon Forest Issues Committee**  
**Chicago Area Committee on Safety and Health**  
**Citizen Action of New York**  
**Citizens Alert!**  
**Citizens Action Coalition of Indiana**

Citizens Action for Recycling Trash  
 Citizens Against Radioactive Dumping  
 Citizens Clearinghouse on Hazardous Waste  
 Citizens Commission on Ehopal  
 Citizens Concerned About the NL, Albany  
 Citizens Concerned About the Port Washington Landfill  
 Citizens Concerned for Clean Water  
 Citizens Environmental Coalition  
 Citizens for a Better Environment  
 Citizens for a Better Forestry  
 Citizens for Clean Air  
 Citizens for a Clean Environment, Alfred Station  
 Citizens for a Livable Environment And Recycling  
 Citizens for Pure Water  
 Citizens of Moreau Against Contamination  
 Citizens Organized to Protect the Environment  
 Citizens of Wyoming County  
 C.L.E.A.N., Inc.  
 Clean Water Action Project, MN  
 Clean Water for Peruville  
 Coalition for Jobs and the Environment  
 Coalition for a Liveable West Side, New York City  
 Coalition on West Valley Nuclear Waste, East Concord  
 Cohansey Area River Protection, Inc.  
 College Heights Property Owners Association, Niagara Falls  
 Colorado Clean Water Action  
 Colorado Public Interest Research Group  
 Columbia Gorge Audubon Society  
 Columbia River Bio-Regional Education Project  
 Columbia-Willamette Greens  
 Committee Health Aspects and Nuclear, Lake Placid  
 Common Ground: Kentuckians for Safe Chemical Weapons Disposal  
 Community Alliance with Family Farmers  
 Community Environmental Health Center at Hunter College  
 Concerned Citizens Action to Remove Toxins, Cold Springs  
 Concerned Citizens Against Dumps, Craryville  
 Concerned Citizens of Cattaraugus County  
 Concerned Citizens for the Environment, Schaghticoke  
 Concerned Citizens of Livingston County  
 Concrete Facts  
 Connecticut Audubon Society  
 Connecticut Public Interest Research Group  
 Conrad III, Batavia

Conservation Project for Sustainable Agriculture  
 Dakota Resource Council  
 Dakota Rural Action  
 Don't Waste Connecticut  
 Don't Waste Colorado  
 Don't Waste New York  
 Don't Waste Oregon  
 Dutch Hollow Homeowners Association, Monroe  
 Earth Island Institute  
 Eco-Justice Project  
 Ecumenical Task Force of the Niagara Frontier  
 El Puente  
 Environmental Health Program, St. Regis Mohawk Health Services  
 Environmental Protection Information Center  
 Environmental Research Foundation  
 Fairfax Audubon Society  
 Federal Land Action Group  
 Florida Clean Water Action  
 Florida Public Interest Research Group  
 Forelaws on Board  
 Fort Edward Homeowners Association  
 Foundation for Global Sustainability  
 Friends of the Breitenbush Cascades  
 Friends of the Earth, New York City  
 Friends of Liberty State Park  
 Fulton Safe Drinking Water Action Committee for Environmental  
     Concerns  
 Georgia Chapter Sierra Club  
 Georgia Citizen Action  
 Greater Ecosystem Alliance  
 Greater Kansas City Fair Trade Coalition  
 Greater Kansas City Greens  
 Great Lakes United  
 Green Environmental Coalition  
 Green Oaks Citizen Club, Brooklyn  
 Greenpeace - U.S.A.  
 Greenworking  
 Group Against Spraying Pesticides  
 Hard Metals Disease Committee, Syracuse  
 Headwaters  
 Heartwood  
 Help Eliminate Lawn Pesticides  
 Highlands Opposed to Polluting the Environment

Holley Environmental Action Committee  
The Hoosier Environmental Council  
Hudson Valley GREEN  
Human Ecology Action League, Syracuse  
Human Environment Center  
Illinois Public Action  
Illinois Public Interest Research Group  
Indiana Division of Izaak Walton League  
Indigenous Environmental Network  
Institute for Agriculture and Trade Policy  
Institute for Environmental Issues and Policy Assessment  
Iowa Citizen Action Network  
Iowa Sierra Club  
International Alliance for Sustainable Agriculture  
Kalmlopsis Audubon Society  
Kentucky Citizen Action  
Kentucky Community Farm Alliance  
Kentucky Conservation Committee  
Kentucky Environmental Foundation  
Kentucky Resource Council  
Kettle Range Group  
Labor Coalition for Environmental Responsibility  
Labor-Environmental Solidarity Network  
Lake Erie Alliance  
Lake Michigan Federation  
Lake Superior Greens  
Landfill Access Monitoring Project  
Land Stewardship Project  
Lane County Audubon Society  
Larimer County Voters for Clean Air Coalition  
LaSalle and Niagara Demand  
League of Rural Voters  
Lighthawk  
Long Island Progressive Action Coalition  
Louisiana Citizen Action  
Louisiana Coalition for Tax Justice  
Louisiana Environmental Action Network  
Love Canal Homeowners Association  
Lynchburg Area Concerned Citizens  
Mahoning Environmental Coalition  
Maine Greens  
Maine Chapter, Sierra Club  
Manchester Citizens Group

Maryland Citizen Action  
 Maryland Clean Water Action  
 Massachusetts Citizen Action  
 Massachusetts Clean Water Action  
 Massachusetts Public Interest Research Group  
 Massachusetts Toxics Campaign  
 Mastics and Shirley Neighborhood Network  
 The Mendocino Environmental Center  
 Michigan Clean Water Action  
 Minnesota Clean Water Action  
 Minnesotans for Safe Food  
 Minnesota League of Conservation Voters  
 Missouri Public Interest Research Group  
 The Mountaineers  
 The Native Forest Council  
 The Native Forest Network  
 Nebraska Citizen Action  
 New Baltimore Concerned Citizens for the Environment  
 New Hampshire Citizen Action  
 New Hampshire Clean Water Action  
 New Jersey Citizen Action  
 New Jersey Clean Water Action  
 New Jersey Environmental Federation  
 New Jersey Public Interest Research Group  
 New Jersey Work Environmental Council  
 New York City Environmental and Labor Coalition  
 New York Coalition for Alternatives to Pesticides  
 New York Regional Greenpeace  
 New York State Sustainable Agriculture Working Group  
 Niagara Environmental Action  
 North American Water Office  
 North Applegate Watershed Protection Association  
 North Coast Environmental Council  
 North Country Action, Canton  
 North Dakota Clean Water Action  
 North Dakota Progressive Coalition  
 North East Ohio Greens  
 North Metro Greens  
 Northstar Chapter of the Sierra Club  
 Northwest Coalition for Alternatives to Pesticides  
 Northwest Environmental Advocates  
 Nuclear Information and Resource Service  
 Ohio Citizens Action

Ohio Environmental Council  
 Orange Environment, Goshen  
 Ohio Greens  
 Oregon Chapter, Sierra Club  
 Oregon Division, Izaak Walton League  
 Oregon League of Conservation Voters  
 Oregon Natural Desert Association  
 Oregon Natural Resources Council  
 Oregon Pacific Party  
 Oregon Peace Works  
 Oregon State Public Interest Research Group  
 Oregon Tilth  
 Oregon Trout  
 Oregon Wildlife Federation  
 Organically Grown Cooperative  
 Owners and Neighbors for the Environment, Batavia  
 Pacific Advocates  
 Pacific Rivers Council  
 Patterson Environmental Conservation Committee  
 Pennsylvania Clean Water Action  
 Pennsylvania Public Interest Research Group  
 People Organized to Win Environmental Rights  
 Peoples Action for Clean Energy  
 People Against Chlordane, Long Island  
 People Against Hazardous Landfill Sites  
 Pesticide Action Network  
 Pesticide Watch  
 Pilchuck Audobon Society  
 PIRG in Michigan  
 Poisonous Arsenal Neighbors of the Irondale Community  
 Powder River Basin Resource Council, Wyoming  
 Praire Island Coalition Against Nuclear Storage  
 Pride in Perry  
 Progressive Coalition  
 Progressive Student Network, Colorado University -  
 Protect a Clean Environment  
 Protect Biodiversity in Public Forests  
 PURE, Buffalo  
 Queens Coalition for Political Alternatives  
 Rad Waste Management Association, New York City  
 Radioactive Waste Campaign  
 Rainbow Alliance  
 Rainbow Alliance for a Clean Environment

Rainforest Action Network  
 Rainforest Relief  
 Ramapo River Committee  
 REACH  
 Redwood Alliance  
 Rensselaer County Environmental Action  
 Resident Landfill Committee of Lewis  
 Residents Against Garbage Expansion, Old Bethpage  
 Residents Organized for Lewiston's Environment  
 Resource Renewal  
 RESTORE: The North Woods  
 Rhode Island Clean Water Action  
 Rochesterians Against the Misuse of Pesticides  
 Sacred Earth Network  
 Safe Alternatives for our Forest Environment  
 Safeguard Schenectady Aquifer and Water  
 San Diego Environmental Health Coalition  
 San Diego Peace and Justice Center  
 San Diego Sierra Club  
 Santiam Wilderness Committee  
 Saratoga City Citizens for Safe Water  
 Save our Ancient Forest Ecology  
 SCALE  
 SCRAP, Hudson Valley  
 Sierra Club Legal Defense Fund  
 Silicon Valley Toxics Coalition  
 Siskiyou Regional Education Project  
 Solidarity Committee of the Capital District, Albany  
 South Bronx Chemical Air Project  
 South Clarkstown Civic Association  
 South Dakota Sierra Club  
 South Glens Falls Homeowners Association  
 Southeastern Pennsylvania Group of the Sierra Club  
 Southern Mutual Help  
 SPARC, Blooming Grove  
 St. Mark's Terrace, Penn Yan  
 STOP, Volney  
 STOP IT, Niagara Falls  
 Student Environmental Action Coalition, Colorado Chapter  
 Susquehanna-Cayuga Groundwater Protection Association  
 Taconic Valley Preservation Committee  
 Texans United  
 Texas Clean Water Action



**T.E.R.R.A.**

**Toxic Avengers**  
**Tracking Committee to ARCO Chemical**  
**Tri-State Coalition for Responsible Investment**  
**Twin Cities Greens**  
**Udalls Cove Preservation Committee**  
**Ulysses Coalition of Activists Network**  
**UMAS/MeChA**  
**Umpqua Watersheds/Cow Creek Council**  
**United States Public Interest Research Group**  
**Urban Habitat Program**  
**USA Recycling Inc., Kings Park**  
**Virginia Citizen Action**  
**Virginia Office Clean Water Action**  
**Washington Public Interest Research Group**  
**Washington Wilderness Coalition**  
**Waste Awareness and Reduction Network**  
**Waterford Environmental Conservation Committee**  
**Western Organization of Resource Councils**  
**West Harlem Environmental Action**  
**West Valley Coalition on Nuclear Waste**  
**West Virginia Citizen Action**  
**West Virginia Environmental Council**  
**Wetlands/Rainforest Action Network**  
**Williamsburg Against Radlac**  
**Willits Environmental Center**  
**Wisconsin Citizen Action**  
**Work and Environment Initiative**  
**Work on Waste, New York State**

March 4, 1993

The Hon. Mickey Kantor  
U.S. Trade Representative  
600 17th Street, NW  
Washington, D.C. 20506

Dear Ambassador Kantor:

As we all acknowledged on February 23, 1993, during a meeting with you, a number of environmental, conservation, health, and safety problems remain in the present NAFTA. We, the undersigned, hope that this letter clarifies the position of our groups with respect to the President Clinton's NAFTA package. Successful resolution of these problems would not only promote sustainable hemispheric trade, but would also send a clear message to the Uruguay Round negotiators in Geneva. While all the groups signed to this letter acknowledge the NAFTA problems identified, individual groups reserve the right to offer varying solutions to these problems.

First and foremost, we support the President's call for an "environmental" supplemental agreement that will establish a strong North American Commission on the Environment (NACE). However, such a supplemental agreement must clarify various other provisions of the existing NAFTA. In our opinion, these elements of a supplemental agreement should be in the form of a protocol, legally binding upon any party to NAFTA, and of equal stature to NAFTA. Some groups have drafted protocol language for the NACE and are presently drafting similar language for the protocol's other provisions that will be forwarded to you shortly.

#### I. ENFORCEMENT:

Trade should not be based on weak enforcement of established standards. Enforcement is a crucial issue. We should not subject U.S. citizens to economic, health, safety, or environmental injury as a result of weak enforcement of standards elsewhere. Nor should our NAFTA partners be harmed by a failure of U.S. enforcement. Sanctions, including both trade and non-trade measures, must be available to ensure compliance. Recognizing that sovereignty concerns exist, we propose that a trilateral mechanism, the North American Commission on the Environment (NACE), as discussed below, be established with sufficient powers to ensure adequate enforcement of existing and future laws.

#### II. NAFTA'S ENVIRONMENTAL OMISSIONS AND AMBIGUITIES:

We recognize the President's desire not to reopen the NAFTA text. Yet, there are provisions in the present text that are either contradictory or unclear, and work to the detriment of

environmental, conservation, health, and safety protection. The Bush NAFTA also completely fails to address several important concerns. Therefore, the topics listed below are areas where a NAFTA protocol must rectify present NAFTA omissions or ambiguities.

#### A. ENVIRONMENTAL REMEDIATION:

Despite the fact that the several border agreements between the NAFTA parties have been considered separate from the present NAFTA, we do not believe that NAFTA should go forward until enforceable commitments have been made to clean up the border regions. Estimates for the U.S.-Mexico border clean-up range from \$ 5 to 15 billion. The U.S.-Canada border also suffers from trade induced problems.

#### B. FUNDING:

A secure source of funding for proper infrastructure development, environmental enforcement, increased investigation, and clean-up for all NAFTA-related environmental programs is vital. Because national appropriations processes do not provide a secure source of funding, we believe that designated funding sources, based on fairness and the "polluter pays" principle, must be developed as a prerequisite to implementation of NAFTA.

Ideas that deserve attention include: a) "snap-back" tariffs applied to sectors with lax enforcement of existing standards; b) a small transaction fee on all goods and services that could be phased out over a specified number of years; c) a directed "green" fee; d) an environmental countervailing duty on economic activity that is environmentally unsustainable or below standard; e) "earmarked" tariffs, which could be phased out during the first 10-15 years of NAFTA; and f) development of a "green investment bank," which could utilize established trust funds to leverage additional money through bond proposals. Regardless of which funding scheme(s) is eventually utilized, we believe it is imperative to channel such funds back into environmental infrastructure improvements, enforcement, border inspection, worker transition programs, certain farmer support programs, and funding of the NACE itself.

#### C. PUBLIC PARTICIPATION AND TRANSPARENCY

Public accountability of governing bodies is an essential element of environmental protection and democratic governance. Accountability includes the rights of notice, comment, the opportunity to participate, the ability to bring complaints, and access to decision-making processes. For the NAFTA package to address these serious concerns, the process of crafting this protocol must provide public accountability and the protocol itself must ensure accountability in the administration and implementation of the NAFTA package.

The current NAFTA dispute panel provisions completely fail to provide citizens from the NAFTA countries with the means to obtain information from, and participate in, resolution of trade disputes concerning environmental, conservation, health, and safety matters. The protocol must provide the public with participatory rights in whatever forum ultimately resolves trade/environment disputes under NAFTA. Furthermore, the NAFTA package must ensure that the public can participate meaningfully in the remaining negotiations of NAFTA. Prior NAFTA negotiations failed to provide the public with sufficient participatory rights, resulting in the deficiencies outlined in this letter. The upcoming negotiations of the NAFTA supplemental agreements provide an ideal opportunity to, at least in part, rectify NAFTA's failure to embrace democratic principles.

D. INTERNATIONAL AND DOMESTIC PRODUCTION/PROCESS (PPM) STANDARDS:

Trade law must recognize that how a product is produced is as important as the quality of the product itself. Only by recognizing process-based trade restrictions will governments retain their ability to keep high domestic standards without placing domestic producers at a competitive disadvantage. Although Article XX of the General Agreement on Tariffs and Trade (GATT) provides for health and natural resource conservation exceptions, these provisions have been constricted by recent GATT panel decisions. Without explicit clarification, NAFTA will repeat the mistake of GATT panels and the Dunkel draft by incorporating unacceptable provisions or interpretations of GATT (e.g., Article 103, NAFTA). For example, laws that would restrict the import of products made with CFCs, timber produced in an unsustainable fashion, or the inhumane treatment of animals could be subject to challenge under NAFTA.

The infamous tuna/dolphin dispute highlights the political difficulties that can be involved in a dispute concerning production process issues. In the tuna/dolphin case, a GATT panel held that harvesting methods were not a GATT-legitimate basis for distinguishing between, and placing import restrictions on, dolphin deadly tuna. After considerable political negotiation, Mexico agreed to join the U.S. in a global moratorium on the setting of nets on dolphin and to use the moratorium as a basis for prohibiting imports of dolphin deadly tuna. To date, Mexico and the U.S. have failed to enter into a global moratorium. The failure of such agreement to be effectively implemented serves to underscore the necessity for specific text within the context of the NAFTA package setting forth the right of NAFTA parties to set standards and distinguish between products on the basis of production methods. As part of the NAFTA package, we believe that relevant NAFTA parties should also be required to enter into and enact the global moratorium.

## E. STANDARDS

A formal trading relationship between countries with significantly different environmental standards possesses predictable tensions. On the one hand, a country with high standards does not want its environmental quality or economic competitiveness to suffer as a result of weak (or non-existent) standards elsewhere. On the other hand, a country with lower standards does not want its sovereignty infringed upon by other countries. No NAFTA party's environmental, health, or safety standards should be weakened by NAFTA, and the NAFTA package should encourage, rather than inhibit, the ability of any NAFTA party to raise standards. See H.Cong.Res. 246 (Waxman-Gephardt); Trade Act of 1974, as amended, 19 U.S.C. Section 2504. In addition, the protocol must protect the full jurisdictional range of each party's domestic standard setting ability, such as proposals to prevent the export of domestically prohibited or restricted products (e.g., pesticides).

We believe the difficulty in reconciling differences in standards can be resolved in a manner consistent with the fundamental principles of international trade; namely, the test for environmental, conservation, health, and safety standards should be the same as for other NAFTA provisions -- national treatment and nondiscrimination. NAFTA's standards provisions must not provide a mechanism to challenge another country's chosen level of environmental, conservation, health, or safety protection, nor the means chosen to achieve such protection if the means is facially non-discriminatory in intent.

NAFTA's two chapters specifically covering standards, Sanitary and Phytosanitary standards (SPS) and Technical Barriers to Trade (TBT), contain ambiguous and contradictory language, and may be interpreted to encourage harmonization towards generally lower international norms. The current TBT and SPS texts set up numerous committees with broad policy jurisdiction, and establish detailed procedures for "conformity assessment" and other harmonization mechanisms. We believe that standard-setting is a matter for local, state, and national democratic bodies, and should be subject to trade disciplines only when there exists a discriminatory intent. To the extent that such committees and standard-setting procedures will exist in NAFTA, the SPS and TBT texts must be supplemented and clarified to ensure openness, mechanisms for public participation and oversight, and participation of environmental, health, and safety experts.

The protocol must also assure that the role of "science" as a necessary basis for standards-setting is not an absolute prerequisite to the adoption and implementation of standards. Standards based, for instance, on the precautionary principle or on consumer preference must be allowed, so long as their intent is transparent and facially non-discriminatory. Similarly, stan-

dards not based on risk assessment, like referendums and "zero-risk" standards, must not be challengeable by NAFTA. The NAFTA package must also make clear the ability of countries to maintain more than one level of acceptable risk. Further, the role of international standard-setting bodies must be only advisory.

In addition, the NAFTA standards sections threaten to expose legitimate environmental, conservation, health, and safety protections to attack as trade barriers on the basis of how a particular level of protection is implemented. The protocol, therefore, must clarify that a non-discriminatory measure will not be held to violate NAFTA because some less NAFTA-inconsistent measure may conceptually exist, a measure has extrajurisdictional implications, or is based on process distinctions.

Finally, the protections afforded by the wide range of standards applicable in the NAFTA parties can only be as strong as the commitment of the NAFTA countries to effectively monitor, inspect, and enforce these standards. For example, with the increased movement of products expected from NAFTA, the U.S. will need to implement new inspection mechanisms to ensure that meat and livestock imported from Mexico and Canada meet all applicable U.S. standards.

#### F. IMPACT ON STATE AND LOCAL LAWS:

Because states and localities are not parties to NAFTA, they cannot directly defend their standards under Chapter 7 or 9. Although the federal government is allowed to set standards it deems "appropriate," states and localities do not explicitly possess this right, and are thus dependent upon the federal government for defense. Furthermore, NAFTA Article 105 states all parties "shall ensure that all necessary measures are taken that in order to give effect to the provisions of this agreement ... by state and local governments." This situation will have a chilling effect upon progressive sub-federal legislation that often drives effective federal action. Thus, the NAFTA package must provide sub-federal governments standing and a major role in NAFTA disputes. It must also assure the ability of sub-federal governments to establish initiatives that exceed federal and international standards.

#### G. INVESTMENT:

Although Article 1114 of the existing NAFTA recognizes "that it is inappropriate to encourage investment by relaxing domestic health, safety or environmental measures," it does nothing to actually prevent such an occurrence. No NAFTA country should become a "pollution haven" for unscrupulous investors, American or otherwise. The United States, for example, frequently applies limitations to investment, domestically and abroad, for important political and national security reasons; that definition must now

be broadened to include ecological security. The NAFTA package must provide a means, including for instance offsetting tariffs to make "polluters pay," so that environmental, health, and safety costs are fully internalized. Moreover, NAFTA's investment provisions should permit access to dispute settlement as a means of preventing environmentally damaging investment.

#### H. INTERNATIONAL AGREEMENTS:

At present, only three multilateral environmental agreements are given some limited measure of protection under NAFTA: CITES, the Montreal Protocol, and the Basel Convention. The Bush Administration's defense to this limitation was that only these three agreements possess direct trade implications. Not only is this assertion false, but the logic behind the argument is also needlessly narrow. We strongly believe that all NAFTA parties must possess the ability to implement and enforce any international agreement by imposing trade restrictions, if such restrictions are an effective way to secure complete compliance with the agreement in question. Therefore, we believe all present and future international environmental, health, safety, animal welfare or conservation agreements, to which any NAFTA party is a signatory, should be referenced in the protocol and added to Article 104.

#### I. ENERGY:

Rules of energy trade among NAFTA parties must respond to the pressing ecological imperative of global warming by assuring the stabilization of greenhouse gas emissions and the reduction of CO2 emissions. For both Canada and the U.S., substantial reductions of the energy intensity of these economies is also required. It is critical that the protocol make these goals explicit. As currently written, Chapter 6 of NAFTA and its precursor in the U.S.-Canadian FTA fundamentally undermine these objectives. Particularly problematic are those provisions of NAFTA that provide for proportional access, as well as the subsidization of oil and gas projects.

Thus, the protocol must secure the right of all NAFTA parties to restrict the export of energy and energy resources to abate global climate change and achieve other environmental objectives. The protocol must also protect least-cost energy programs, like subsidies to encourage conservation and renewables, from trade challenges. In addition, the protocol should include specific provisions to encourage the transfer of appropriate energy efficient technology and to ensure that full environmental impact assessments are undertaken for all major energy projects.

#### J. AGRICULTURE:

NAFTA, as written, threatens the survival of family farmers who have the most experience and potential to be good stewards of the land. If agricultural production is to be put on a sustainable footing, (e.g. decreased production on marginal land and the use of fewer chemicals), then environmental and social costs must be internalized. This will not happen if family farmers have to compete with cheaper imports produced in less sustainable ways.

NAFTA must preserve the capacity to employ supply management as a policy tool to promote sustainability. This capacity has been seriously undermined by NAFTA's tariffication of quantitative import controls, including Section 22 of the Agricultural Adjustment Act and the Meat Import Act. We therefore propose that the tariffication provision be altered through the supplemental agreement to allow for import controls on supply managed crops and to create the possibility for the future supply management of crops not currently in the program.

#### K. CONSERVATION ISSUES:

The NAFTA package must not allow or encourage natural resources such as water, forests, and the diversity of species to be unsustainably consumed or harmed. If countries are to develop and implement sustainable natural resource management programs, they must possess unfettered authority to regulate resource extraction. Of critical importance is the power to determine whether, and under what terms, a NAFTA party's resources may be exploited for export markets. Under NAFTA, particularly Articles 309 and 316, the sovereignty of countries to regulate the export of natural resources is severely curtailed. In fact, Article 316 goes much further than GATT by assuring perpetual access to other party's resources, notwithstanding domestic shortages, for as long as those resources last. A particularly serious problem in this regard is the prospect that NAFTA could be used to compel major interbasin transfers of water despite existing water management regimes. The protocol, thus, must explicitly provide that all parties possess unfettered authority to embargo natural resource exports for legitimate conservation ends.

A related problem centers upon the impact of NAFTA's intellectual property framework on efforts to protect the biological diversity of this continent's ecosystems. The protocol should ensure that equal protection be afforded to both the "stewards" or "owners" of biological resources, including indigenous and minority peoples, as well as to patent holders.

To help deal with wildlife habitat conservation in particular, we propose that the Convention on Nature Protection and Wildlife Preservation in the Western Hemisphere be revitalized and specifically linked to NAFTA so that acceding countries to



NAFTA make specific accommodations to habitat protection within their borders.

L. GOVERNMENT PROCUREMENT:

The use of preferential purchasing policies is an important tool that has been used by governments at all levels to create markets for, and encourage the development of, green technology and environmentally sound products. Under Chapter 10 of NAFTA, such green procurement initiatives are vulnerable to challenge. For instance, under the CUSFTA, Canadian paper manufacturers have argued they possess a trade claim on the basis of recycled paper content requirements by U.S. governments. Thus, the protocol must assure the rights of governments to implement environmental purchasing policies and practices free from the threat of trade sanctions.

M. THE "NECESSARY" TEST AND OTHER PROBLEMATIC NAFTA LANGUAGE:

Like many other NAFTA provisions, Chapter 21's environmental "exceptions" incorporate GATT terminology and jurisprudence. Unfortunately, recent GATT panel decisions have interpreted the term "necessary to protect human, animal or plant life or health" as requiring "necessary" measures to be "least-GATT" or "least-trade" restrictive. Under this standard, many present federal and state measures could be found to be NAFTA-inconsistent -- from bans on the trade in elephant ivory to state recycling programs. The environmental exceptions in NAFTA, therefore, need to be clarified and strengthened to ensure that the GATT jurisprudence does not affect the interpretation of NAFTA.

Also potentially problematic is NAFTA Article 903, which could be read to incorporate GATT provisions and jurisprudence in a way that diminishes a NAFTA country's ability to protect environmental resources. Furthermore, Annex 2004's allowance to seek dispute settlement if a party feels "any benefit it could reasonably have expected to accrue it ... is being nullified or impaired" invites attack upon U.S. standards. Similarly, the "based on" language of Articles 754, 755, 757, and 905 could needlessly threatens U.S. laws like the Delaney clauses. Here again, a clarifying standard should be adopted in the protocol that protects all U.S. environmental, health, and safety standards, as long as they are not arbitrary, discriminatory, or disguised trade barriers.

N. SUSTAINABLE DEVELOPMENT:

While we laud the goal of "sustainable development" in NAFTA's preamble, we would like to see the goal of sustainable development made binding, and appear in Article 102's Objectives. By truly integrating the concept of sustainability into this

protocol, the NAFTA parties will establish an environmental benchmark for hemispheric trade and development.

### III. THE NORTH AMERICAN COMMISSION ON THE ENVIRONMENT (NACE):

We support a NACE that will possess investigative, monitoring, and enforcement powers for all present and future parties of NAFTA, as well as serve as a mechanism for meaningful public participation. A strong NACE would not only enable the NAFTA parties to jointly increase the use and implementation of beneficial environmental, health, and safety measures, but also provide an effective mechanism for identifying and addressing degrading activities that create unfair competitive advantages or result in trade distortions. All activities of the NACE described will be public, except where explicitly provided otherwise.

#### STRUCTURE OF THE NACE:

Following are some practical recommendations regarding the structure and functions of the NACE.

##### 1. NACE Commission:

The Commission should ultimately be responsible for all functions of the NACE. Each NAFTA party should have the right to appoint one NACE Commissioner who, together with the other NACE Commissioners, will possess authority to effectively implement NACE policies and perform NACE functions. We suggest that the operative voting norm for NACE be a majority. The U.S. NACE Commissioner, equipped with a staff, should be selected by the President with Senate confirmation.

##### 2. NACE Secretariat:

A permanent and independent Secretariat should also be created in order to realize NACE's substantial mandate. Thus, we recommend establishing a head of the Secretariat (Secretary General). The Secretary General, with staff, should possess responsibility for implementing the environmental, health and safety provisions of the NAFTA package, though national courts would retain concurrent jurisdiction to enforce standards in their own courts. The Secretariat should also be responsible for submitting an annual public report to the parties on its various duties.

##### 3. Roster of Dispute Panelists:

The Commission should establish a roster of environmental, conservation, health, and safety experts with appropriate trade background for dispute resolution under NACE.

#### 4. NACE Public Advisory Committee:

We suggest a Public Advisory Committee be formed, made up of four representatives from each country and one representative selected by the Secretariat. The four U.S. representatives should be picked by the President, and must include at least two individuals from non-profit environmental, conservation, health, and safety groups.

##### FUNCTIONS OF THE NACE:

#### 1. Dispute settlement:

An effective NACE must be empowered with the authority to engage in two distinct prongs of dispute resolution:

a. NACE must be able to effectively dismiss complaints that attack laws whose sole purpose is to advance legitimate environmental, health, safety, or conservation laws. The protocol should provide that challenges to laws implicating environmental, health, and safety protections should be referred to the NACE. Where the NACE finds that the sole purpose and effect of a challenged party's measure is to advance a legitimate environmental, health, or safety goal, such a finding shall be referred to the NAFTA dispute process for the dismissal of the complaint. Where the NACE finds that the complained of measure is not in full a legitimate environmental, health, or safety measure, the NAFTA dispute may continue, according the findings of the NACE great deference in making its environmental, health, safety, or conservation determinations on the application of NAFTA's provisions. This process will ensure that legitimate protections are insulated from trade challenges, without compromising the ability of the parties to address NAFTA-inconsistent protectionist trade measures.

b. The NACE dispute settlement procedure should also be the mechanism for NAFTA environmental, health, and safety enforcement. Disputes may be brought by NAFTA parties or the public involving environmental, health, or safety issues before the Commission. The Commission should determine which cases shall be directly referred to a NACE dispute panel. In cases where the Commission declines a matter, the Public Advisory Committee should possess authority to compel the dispute resolution under NACE. The Public Advisory Committee should also possess authority to bring complaints to NACE directly. U.S. implementing legislation must specifically acknowledge the right of U.S. citizens and groups to sue in federal court to invoke trade measures or other appropriate sanctions for violation of U.S. standards. NACE should only enforce a party's own standards.

If a dispute panel verifies a complaint by a party or

individual, then that party or individual should be entitled to pursue the "snap-back" tariff provisions of NAFTA's Chapter 8 through the complainant's domestic trade agency. If a dispute panel determines that a party or individual has suffered an environmental, conservation, health, or safety injury as a result of lax enforcement in another country, yet no trade injury exists, then NACE should possess the authority to levy a fine upon the violating entity. Mechanisms should be developed to enable monies collected through the dispute process to be used for environmental compliance.

## 2. Investigation:

We believe the NACE must possess authority to investigate environmental, conservation, health, and safety matters in all NAFTA countries. The NACE should be able to commence an investigation on its own initiative or at the request of the Public Advisory Committee, the public, or a NAFTA party.

## 3. Monitoring:

The Secretariat, in cooperation with the NACE Commissioners, should also possess authority to monitor the condition of the NAFTA parties' general environment. Consequently, the Secretariat should possess the authority to obtain information from the NAFTA parties' government and the general public.

## 4. NAFTA Amendments and Accession:

Because of the significant impacts that either NAFTA amendments or accession would have upon the environment, the NACE Commission should make recommendations to the parties on these matters. Any new party to the NAFTA should be required to accede to the whole NAFTA package and submit a report to the NACE on its environmental, health, and safety protection schemes, as well as the enforcement of those protections. These reports could be revised by all NAFTA parties at regular intervals thereafter.

## 5. Cooperative efforts:

We further suggest the NACE promote cooperative efforts among NAFTA parties relating to trade and its environment, health, and safety implications for technology transfer, technical assistance, training, and education programs. Several successful cooperative ventures between NAFTA parties have already commenced. The potential in exporting U.S. technological expertise will not only enhance enforcement efforts in other countries, but will also generate a significant number of American jobs.

We appreciate the opportunity to brief you on these matters and look forward to working with you over the coming months and years. We hope that the protocol outlined in this letter is merely the beginning of a larger process to incorporate sound environmental oversight into the NAFTA process. Please do not hesitate to contact us if you have any questions.

On behalf of:

Defenders of Wildlife  
 Center for International Environmental Law (CIEL)  
 Friends of the Earth  
 Sierra Club  
 Public Citizen  
 The Humane Society of the United States  
 Humane Society International  
 Institute for Agriculture and Trade Policy  
 Center for Rural Affairs  
 National Family Farm Coalition  
 Earth Island Institute  
 Marine Mammal Fund  
 Animal Protection Institute  
 Rainforest Action Network  
 Whale and Dolphin Conservation Society  
 Performing Animal Welfare Society (PAWS)  
 The Fund for Animals  
 Environmental Investigation Agency  
 Environmental Solutions International  
 International Primate Protection League  
 N.Y. Public Interest Research Group, Inc.  
 Community Nutrition Institute  
 National Toxics Campaign Fund  
 North America Project, World Policy Institute

cc: The Honorable Bruce Babbitt  
 The Honorable Carol Browner  
 The Honorable Mike Espy  
 The Honorable Ron Brown  
 The Honorable Warren Christopher  
 The Honorable Tim Wirth  
 The Honorable George Mitchell  
 The Honorable Max Baucus  
 The Honorable Daniel Moynihan  
 The Honorable John Kerry  
 The Honorable John Chafee  
 The Honorable John Danforth  
 The Honorable Sam Gibbons  
 The Honorable Gerry Studds  
 The Honorable Richard Gephardt  
 The Honorable Dan Rostenkowski  
 The Honorable Ron Wyden

The Honorable Bill Richardson  
The Honorable Henry Waxman  
The Honorable Sam Gejdenson  
The Honorable Robert Matsui  
The Honorable Peter DeFazio  
The Honorable Cardiss Collins  
The Honorable John LaFalce  
The Honorable Laura Tyson  
The Honorable Carmen Suro-Bredie  
Ms. Kathleen McGinty

Testimony of Labor Secretary Robert B. Reich  
before the  
Ways and Means Committee  
United States House of Representatives  
September 14, 1993

Good morning, Mr. Chairman and members of the Committee. I am pleased to testify before you on the North American Free Trade Agreement--better known as NAFTA--and grateful for the opportunity to declare my conviction that NAFTA will prove to be a boon for America's workers. At the same time, I hope to underscore that reaping the fullest benefits of this historic market expansion requires two further measures. One has already been substantially completed: The negotiation of supplemental agreements on labor and environmental protection. The second is progressing rapidly: The development of a comprehensive worker adjustment system to ensure that no worker will face unaided the challenge of adapting to economic change, whatever its cause.

#### NAFTA AND JOB GROWTH

Let me begin with a point which is as close to a certainty as any projection can possibly be: NAFTA will make life better for Americans. I say this in full recognition of my role as Secretary of Labor -- Secretary of the American Workforce -- whose chief responsibility is more and better jobs for the working men and women of America. Indeed, I will be remiss in my duties if I fail to do all that I possibly can to ensure that we seize this chance for expanding job opportunities. The warnings of some well-amplified alarmists notwithstanding, NAFTA will benefit American workers.

International trade is not a zero-sum game. There is no fixed number of jobs to be parcelled out between the workers of the U.S., Mexico and Canada and the rest of the world. Market expansion is a positive-sum game in which all parties stand to gain. America has played this game, and prospered by it, throughout her history. We are poised for a solid payoff with our very next move, and this is no time to leave the table.

NAFTA promises to be an especially advantageous move for us because our markets are already largely open. NAFTA doesn't so much open the US market to Mexican goods as it opens the Mexican market to American goods. U.S. tariffs on Mexican goods average only 4 percent; Mexican tariffs on our products average ten percent -- two and a half times as high. Moreover, customs duties on merchandise assembled with American-made components in the "maquiladora" assembly plants lining the southern rim of the border area are charged only on value added in Mexico--typically about one half of the cost of the product. On this side of the border, the simple fact is that there are few major trade barriers left for NAFTA to knock down.

The tentative opening of the Mexican market already implemented by President Carlos Salinas de Gortari and his predecessor hint at the gains NAFTA will yield for American firms and workers. Despite substantial remaining barriers against U.S. goods, the Mexican market is growing so quickly, and American producers are so well-positioned to serve it, that we are already selling more to them than they are to us. From 1986 to 1992, U.S. shipments to Mexico grew from \$12.4 billion to \$40.6 billion. Our \$5.7 billion trade deficit in 1987 was transformed to a \$5.4 billion surplus in 1992.

Exports on this scale translate directly into jobs for American workers. Merchandise exports to Mexico today account for an estimated 700,000 jobs. Many of those jobs simply would

not exist had it not been for the 228 percent surge in merchandise exports to Mexico since 1986.

It's important to recognize that the job benefits of growing trade with Mexico--even prior to the greater growth to follow the implementation of NAFTA--are broadly based, occurring across geographic and sectoral lines.

Between 1987 and 1992, 48 of the 50 states increased their exports to Mexico. In 38 states the current dollar value of exports more than doubled, and fully half of the states saw shipments to Mexico increase threefold or better.

- Pennsylvania's exports to Mexico totalled \$742 million in 1992, with primary metal industries and electric and electronic equipment registering the largest gains.
- Indiana's exports shot up roughly tenfold between 1987 and 1992 in industries including fabricated metal products, refined petroleum products, and a variety of manufactured goods.
- Illinois has enjoyed more than \$1 billion in export sales growth, creating approximately 17,000 new jobs. Big gains were in industrial machinery, computers, and transportation equipment.

When Mexican consumers and businesses buy more U.S. electronics and telecommunications equipment made in California - a category of exports that rose by more than 200 percent between 1987 and 1992 -- the workers who make this equipment gain job security. When Mexico boosts its consumption of refined petroleum products from Louisiana -- as it did by about 200 percent over the period -- Louisiana refinery workers gain job security.

This pre-NAFTA export surge has also been broadly shared across sectors of the U.S. economy. Between 1989 and 1992, exports to Mexico have increased in industry after industry, from automotive (101%), to iron and steel (110%), to textiles and apparels (103%), to electronic components (51%).

Our trading relationship with Mexico has paid off enormously despite relatively heavy restrictions on the flow of U.S. products into the Mexican market. Lifting those restrictions-- which is precisely what NAFTA will do--will speed the creation of U.S. export jobs. As the Congressional Budget Office concluded in its July 1993 analysis, NAFTA will result in a net increase in American employment.

In addition to generating more jobs in the United States, NAFTA also will lead to better jobs. Jobs created by expanded trade typically are the sorts of higher-wage, higher-skilled jobs on which the future of the American workforce depends. We simply cannot compete with the rest of the world on the basis of low wages and low skills, and expect to sustain a prosperous middle-class economy. Unskilled, routine jobs already are vanishing from the United States-- either moving to places around the globe whose inhabitants are eager to work at wages much lower even than Mexican wages, or being supplanted by machines which can do the work at a fraction of the cost. Our economic future -- like that of every advanced economy -- depends on the continued creation of new and better jobs, fueled, in part, by exports to lower-wage nations at an earlier milepost on the path to prosperity.

Missing the boat on NAFTA will prevent us from reaping these potential gains. It also may jeopardize the existing trade relationship with Mexico that has been so diligently and profitably built over the past few years. If we fail to join with Mexico to create these new market opportunities on both



sides of the border, we can expect that Mexico (like most countries) will seek other global alliances.

#### THE SUPPLEMENTAL LABOR AGREEMENT

Now let me turn to the North American Agreement on Labor Cooperation that will accompany the basic NAFTA accord. The President's early support of NAFTA was conditioned on the development of additional accords, to bolster the core agreement's terms in the areas of labor and environmental standards and import surges. Negotiations over the side agreements were concluded last month, and signed by the President today. I am convinced, as is the President, that these side agreements strengthen NAFTA substantially.

What has been achieved by the labor side agreement that has advanced the Administration's position on NAFTA from conditional to enthusiastic support?

I'll begin with a vital and often-neglected point: The historic linkage of trade and labor issues embodied in the supplemental agreement. This represents the first labor agreement negotiated specifically to accompany and fortify a trade agreement -- the first attempt to match trade and investment rules with a more integrated framework for labor market policies -- the first attempt to manage the terms of the potential change in labor markets brought about by an accord between the U.S. and a trading partner.

The Supplemental Agreement satisfies the imperative that NAFTA and the ensuing economic realignment not take place at the expense of the environment or at the expense of basic workers' rights. The Agreement addresses issues such as protections concerning child labor, health and safety, minimum wage, and industrial relations.

To give these safeguards force, the Supplemental Labor Agreement was developed around three fundamental principles: First, enhanced collaboration, cooperation, and information exchange among the three countries. Second, increased efforts to make explicit and highly visible each country's labor laws and their implementation. Third, increased use of effective mechanisms to encourage the enforcement of national labor laws.

Perhaps most importantly, these principles will be enforced by a set of formal administrative bodies and mechanisms designed to ensure their complete and rapid implementation. The Agreement creates a Commission for Labor Cooperation, consisting of a Council and a Secretariat and supported by National Administrative Offices. Let me describe the design and function of each.

- The Council, composed of the three Cabinet-level labor officials, will be the governing body of the Commission. It will have a broad mandate to oversee the implementation of the agreement, establish priorities for cooperative activities on labor issues, including occupational safety and health, child labor, benefits for workers, minimum wages, industrial relations, legislation on union formation, and labor dispute resolution. It will also facilitate party-to-party consultations.
- A Secretariat will provide technical support to the Council and will prepare periodic reports on a wide range of labor issues, including labor laws and their enforcement, labor market conditions such as average wages and productivity, and training and adjustment programs. The Secretariat will be headed by an Executive Director appointed for a fixed term by consensus of the three parties.

- National Administrative Offices (NAO's) will be appointed by each country to serve as a point of contact between Commission entities and national governments. NAOs will consult and exchange information on labor matters. Each country will have a right to determine the functions and powers of its own NAO and decide upon its staffing. The NAOs will serve as the vehicle for the public in each country to question and comment upon labor practices in the territories of the other parties.
- At the request of any Party, an Evaluation Committee of Experts (ECE'S), will be convened to examine many problems concerning the enforcement of labor laws. ECEs, composed of independent experts, will report and make recommendations on each matter as it is treated in each of the three countries. If a Party believes that another is demonstrating a persistent pattern of failure to effectively enforce child labor, health and safety, or minimum wage provisions, a Dispute Settlement Panel can be invoked. This Panel will be backed by the potential imposition of fines and trade sanctions when it finds against a country.

The mechanisms described here will allow us to enjoy the fruits of the NAFTA accord and at the same time allow us to protect the basic rights and interests of U.S., Mexican and Canadian workers. Moreover, the procedures do this in the appropriate manner: by encouraging voluntary improvement and enforcement and resorting to sanctions only as a last resort. But make no mistake, the sanctions, once imposed, have teeth and will produce compliance with the terms of the agreement.

Before leaving my discussion of the supplemental agreements, I'd like to point out that the first fruits of this collaborative, continental approach to progressive labor policy are already apparent in President Salinas' recent announcement that Mexico will link increases in the minimum wage to gains in worker productivity.

#### WORKFORCE ADJUSTMENT

NAFTA will, on balance, mean more jobs and better jobs for American workers. It remains true, however, that despite the final tally of job growth, a tiny proportion of working Americans face a real prospect of dislocation as a result of the changes NAFTA brings about. What of those Americans who find their jobs at risk? How do we answer their very real anxieties and respond to the vulnerability they face?

Let me respond to this crucial concern with four points.

First, labor-market pressures resulting from NAFTA will not come as a sudden, sharp shock. The major changes will develop gradually, giving us extra time for adjustment. The agreement, it must be remembered, will be phased in over a decade. Those working in industries which have been most sheltered from competition will see barriers drop in stages, not all at once.

Second, a supplemental understanding on import surges provides a safety mechanism to give some breathing room if the pace of change proves to be too disruptive in particular cases.

Third, the total number of workers put at risk by NAFTA will be quite small relative to the opportunities generated by our large, rapidly changing national economy and small relative to the total amount of job change that Americans will experience during the years that NAFTA is phased in.

Fourth, and perhaps most important, the Administration fully recognizes the obligation of government to ensure that no citizen bears disproportionately the costs of changes that benefits us all. And we are preparing to deliver on that obligation with a comprehensive strategy for helping workers who have lost their old jobs find new ones.

It is a comprehensive strategy because its motivation and its effects go far beyond NAFTA. It is equally relevant to our challenge of scaling back weapons production and converting to a productive civilian economy, adjusting to unprecedented technological changes which are shaking up entire industries, adapting to the downsizing of major corporations, and adopting production technologies that do not pollute the nation's air.

Each of these sources of structural change will benefit us as a nation. Each has as a side effect the potential dislocation of some workers from the jobs they now hold. But people need to know that this Administration will have policies in place to help ease the transition from the old economy to the new. These policies will help people who believe their jobs may be at risk because of NAFTA -- just as they will be available to everyone who wants to or has to change jobs in the years to come.

Within the next few weeks we will propose legislation which will move us from a system that simply buffers the pain of unemployment towards a system that speeds displaced workers into re-employment.

For over fifty years, we've had an unemployment insurance system premised on the notion that what workers needed most was some income assistance during economic downturns (typically lasting no more than six months) until they got their old jobs back in the same company or industry.

And we've had a scattershot array of job training programs, with each one designed to help a different category of workers who lost their jobs.

Unemployment insurance still helps people, of course. And particular identifiable groups of workers still need retraining. But given the huge structural changes in the American economy, this old system has become a band-aid rather than a cure. Lately, we're spending more than \$35 billion a year just keeping people financially intact until a new job comes along. In each of the last two years, the federal government spent \$12 billion simply extending unemployment benefits. But the fact is that -- with or without NAFTA -- more and more Americans need to find new jobs, in new industries. And many of them need retraining (often long-term retraining) regardless of the reason they lost their job.

As a first step, we will seek to identify permanently displaced workers early on. We've found that the early identification of dislocated (versus temporarily laid-off) workers, followed by early readjustment and job-search assistance for them, cuts their time spent unemployed -- along with the associated costs and pain.

Our re-employment system will feature broad access for displaced workers, so that the help they receive will depend on what they need to get a new job, not on the reason why they lost their old job. Unemployment insurance, job-search assistance, counseling, and job retraining will be delivered at one-stop centers, with a minimum of red tape. Training will be offered by a variety of providers, with options to include basic skills training, literacy and numeracy, and occupational skills training, both classroom and on-the-job. States will be allowed--and encouraged--to develop other options to fit the particular needs and priorities of their citizens.

A fundamental flaw in our present unemployment compensation scheme is that while it supports people who are unemployed and looking for new work, it typically does not support people while they are receiving training for new work. We hope to eliminate this flaw. We aim to provide income support for displaced workers who need extended retraining and are making satisfactory progress in full-time training programs.

Finally, it is worth noting, in this time of tight budgets and eroded faith in public institutions, that reinvented government is a hallmark of the comprehensive worker adjustment system I have described. Just as our private sector has become more attuned to serving the customer quickly, flexibly and efficiently, so must our public sector. A shiny new training program does no good if it's giving people skills that aren't in demand. Filling out the same form for three different agencies wastes time, shortens tempers, and undermines confidence. For these reasons, accountable, customer-driven, locally-based ways of doing the public's business are built right into the ground floor of the our system -- not tacked on as an afterthought.

This system is based on two imperatives. We don't have a person -- or a tax dollar -- to waste.

#### CONCLUSION

NAFTA presents a puzzling disconnect between expert opinion and the public debate. As the members of the Committee have surely learned by listening to testimony on issue after issue over the years, economists like to disagree. For a great many economists, indeed, disagreeing is both their profession and their hobby. And yet it is difficult to find more than a handful of serious economists who dispute the claim that NAFTA will be broadly beneficial. Lurid scenarios of economic catastrophe and skyrocketing unemployment, whether meant cynically or in honest error, are unrooted in either evidence or economic principle. Why, then, do such empty claims echo so loudly through the public debate?

I believe it is because for many Americans, general anxieties about economic change have crystallized--erroneously, to be sure, but perhaps understandably--around NAFTA, as a prominent, if relatively secondary, symbol of change. While anti-NAFTA hysteria will eventually be seen as groundless, the more general concerns about Americans' economic futures are all too well-placed. Since the 1970s, the real wages of most American workers have persistently declined. The average real hourly earnings of production and non-supervisory workers, mainly non-college workers, declined by 10 percent from 1973 to 1992 (and by nearly 9.5 percent from 1979 to 1992). Real wages have fallen even more dramatically for young, non-college workers. In fact, the percentage of year-round, full-time workers not earning enough to support a family of four above the U.S. poverty level increased from 12.1% in 1979 to 18% in 1990.

The job market is also growing more unstable, leaving an increasing number of Americans to work harder for not only a lower wage but for lower benefits and less peace of mind. The number of temporary and part-time workers continues to grow. And the comforting rhythm of cyclical ups and downs has been complicated by permanent structural change. Over the most recent recession, permanent job losers accounted for a full 86 percent of the increase in layoffs. We can and we must address these sources of anxiety. But retreating from trade--and in particular, balking at the opportunity NAFTA presents--is no solution.

Anxious about the future and subject to so many sources of change that are beyond any chance of control, some Americans seem to hope that blocking this one source of change subject to a Congressional vote--NAFTA--will somehow reverse the tide of

global economic evolution. But that tide of change is pouring in, whether we summon it or seek to turn it back. The change specifically due to NAFTA will be a mere ripple within the flood.

The question is not whether we turn back the rising tide, but whether it ends up lifting all of our prospects, or gradually submerging them. And the answer to that question will depend on our readiness to cut loose the anchors that tether us to the old economy, and learn to navigate in the new economy. The choice is not change versus the status quo. It is whether we choose to confront the inevitability of change, or opt instead to deny it, and in our denial define ourselves as victims rather than masters of the new global marketplace.

May 4, 1993

Ambassador Mickey Kantor  
U.S. Trade Representative  
600 17th Street, N.W.  
Washington, D.C. 20506

Re: NAFTA -- Supplemental Agreements

Dear Ambassador Kantor:

As you are aware, the undersigned environmental groups have each consulted with your office about and made recommendations concerning the North American Free Trade Agreement (NAFTA) supplemental agreements on the environment. In order to clarify the positions that we believe are critical to the supplemental agreement negotiations and to help the President achieve his objectives on NAFTA, we have come together to define those provisions which if included in the supplemental agreements would secure the support of all of our organizations for the NAFTA.

In developing the positions set forth below, we were guided by several key principles: (a) that the supplemental agreements must establish a North American Commission on the Environment (NACE) which is given meaningful responsibility and the resources to undertake its role; (b) that the Signatories must give NACE the power to play an important role in helping ensure that the Signatories enforce their environmental laws; (c) that the NACE have the ability to discuss, evaluate and report on important environmental and conservation issues; (d) that the Signatories agree to a dedicated source of funding for the NACE, border infrastructure and cleanup, and conservation programs; (e) that there be meaningful public participation in the environmental aspects of the NAFTA, including the NACE; and (f) that ambiguities in certain provisions of the NAFTA text, particularly the standards provisions, be clarified.

Based on these principles, we have agreed that the undersigned groups will support the NAFTA if the supplemental agreements include the following provisions:

✓ I. The NACE.

A. **Structure.** The Signatories would establish a North American Commission on the Environment (NACE) that, in addition to Commissioners, is staffed by a permanent

Secretariat headed by a Secretary General who has the independent power to prepare reports and conduct investigations, and which is advised by a Citizens Advisory Board that includes representatives of nongovernmental organizations from each Signatory.

**B. Power to Prepare Reports.** The NACE would have the responsibility for preparing specific reports set forth in the supplemental agreements. The NACE would also have the power to act as a policy forum to debate and report on environmental and conservation issues.

**C. Power to Investigate.** The NACE would have the power to conduct investigations on its own initiative or in response to citizen petitions in a manner consistent with priorities set by the supplemental agreements and the Secretary General. It would also prepare reports on the results of such investigations.

**D. Contents of Reports and Follow-up.** The reports of the NACE would include suggested action plans; the Signatories involved would respond in writing to such action plans; the NACE agreement would require the Secretary General at regular intervals to follow up and report on the status of the implementation of an action plan; and the Secretary General would make all its reports and responses public.

## II. Enforcement.

**A. Gathering Information.** To gather information, the Secretary General would have the power to hold public hearings and request that the relevant Signatory government gather information that the Secretary General finds is necessary. A Signatory responding to a request from the Secretary General for information would seek to obtain such information pursuant to and consistent with the Signatory's laws and regulations. The Secretary General would have the power to request verification of data by visits by its staff to the relevant facilities accompanied by enforcement personnel of the Signatory. The visits would be conducted consistent with the laws and regulations of the Signatory and be of sufficient scope to meet the information objectives of the Secretary General. All denials of requests for information or verification would be made public unless the Signatory certifies that this would interfere with an ongoing civil or criminal investigation.

**B. Individual Facilities and Operations.** The Secretary General would have the power to gather information about individual facilities and operations, and be able to use such information to evaluate enforcement of law by the Signatories.

C. **Sanctions.** The Signatories agree that any Signatory who believes that another Signatory has engaged in a pattern of failing to comply with NACE recommendations embodied in an action plan or with requests for information and verification by the Secretary General could initiate a dispute settlement proceeding under Chapter 20 of NAFTA on the basis that such repeated failures nullify and impair the concessions granted in the NAFTA. Article 2019 sanctions would be implemented where a dispute panel finds a pattern of a Signatory failing to comply with NACE recommendations embodied in an action plan and/or a pattern of failing to respond to NACE requests for information and verification.

D. **Domestic Law Enforcement.** The Signatories would agree to make available to their own citizens under their domestic laws enforcement procedures similar to those in Article 1714 of NAFTA so as to permit effective enforcement of environmental laws.

### III. Funding.

*hand shake*  
A. **Funding for NACE and Border Projects.** The supplemental agreements would provide for a secure source of funds in an amount sufficient to enable the NACE to undertake each of its responsibilities and functions, as well as for cleanup and infrastructure programs on the U.S./Mexican and U.S./Canadian borders.

B. **Funding for Conservation Programs.** The supplemental agreements would provide for a secure source of funds for conservation, biodiversity and ecosystem protection programs.

### IV. Standards.

A. **Negotiation of Process Standards.** The Signatories would agree to enter into negotiations within six months of the implementation of the NAFTA to discuss criteria for setting process standards. In addition, the Signatories would agree to place a moratorium on bringing cases to dispute settlement panels if the law at issue is designed to protect fish, animals or wildlife outside the territorial land of the Signatories until these negotiations develop applicable criteria for process standards. The implementing legislation would include a provision specifying that arbitral panel decisions adverse to a U.S. fish, animal or wildlife law or regulation would not result in the repeal or amendment of any such law or regulation.

B. **Chapter 9.** The Signatories would clarify that Chapter 9 was intended to allow challenges to an environmental standard-related measure only on the ground that it is discriminatory or was designed as a disguised barrier to trade, not on the ground that it is too strict.



C. Chapter 7. The parties would either agree on language clarifying certain key terms in Chapter 7 that remain ambiguous, including but not limited to the term "necessary," or agree that they will not bring cases under Chapter 20 challenging a sanitary or phytosanitary standard for pesticide residues or contaminants in food under Chapter 7 except on the ground that the standard is discriminatory or was designed as a disguised barrier to trade.

D. Challenges to State Laws. The Administration would agree that it will seek in the U.S. implementing process a provision preventing the preemption of or interference with states' or other subnational entities' laws or policies on the basis of Articles 105 or 902.

#### V. Dispute Settlement.

A. Dispute Settlement Protocol. The Signatories would enter into a protocol which clarifies the procedures of arbitral panels; which sets forth the deference such panels will give to a Signatory's agency and judicial decisions and a Signatory's laws concerning the setting of standards; which increases the transparency of arbitral panel proceedings by providing, consistent with criteria set in the supplemental agreement, documents to the public and the opportunity for interested persons to file amicus briefs; and which specifies the opportunity for public participation and the use of environmental experts in such proceedings.

B. Input Into U.S. Positions During Dispute Settlement Proceedings. The implementing legislation would provide for public input (and, where appropriate, input from state and local governments) into U.S. government decisions relating to: (i) the defense of cases before arbitral panels challenging environmental laws, and (ii) decisions whether to bring a dispute settlement proceeding alleging that a Signatory has not complied with NACE recommendations or requests.

#### VI. Public Participation. In addition to the public participation provisions described above, the Signatories would agree to enact "community right-to-know" laws consistent with Principle 10 of the Rio Declaration.

#### VII. International Environmental Agreements.

The Signatories would add additional environmental and conservation agreements to Annex 104:1 and list automatically on that annex all amendments to the agreements on that annex and in Article 104. Dispute resolution panels would give deference to a Signatory's decision that it has properly interpreted the relationship between the NAFTA and another international environmental agreement. We will provide a list of the Agreements that we believe should be added to Annex 104:1.

## VIII. Supplemental Agreements.

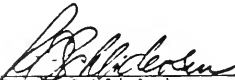
The Signatories would agree, consistent with their domestic law, to take actions that give the supplemental agreements on the environment the same status and effect as the NAFTA itself.

The provisions described in this letter are elaborated and amplified in the attached back-up memorandum. Taken together, we believe that they would be either consistent with historical practice in the international area or reflective of the trend towards greater transparency in international deliberations, that they would be consistent with the preamble to NAFTA and the Rio Declaration, that they would not unduly interfere with the sovereignty of the Signatories, that they would not require a rewrite of the NAFTA text, that they would increase protection of the environment throughout North America and that they would lead to significantly better protection of the environment than would result if the NAFTA were defeated.

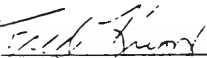
Please note that neither this letter nor the back-up memorandum addresses a number of important issues that affect the borders of the Signatories, including the relationship between the NAFTA and other border agreements and institutions and the need for establishing national environmental management districts. These issues will be addressed in another letter we are preparing. In addition, we are preparing and will provide a letter analyzing funding options.

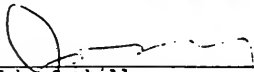
We deeply appreciate your careful consideration of the matters set forth in this letter and look forward to meeting with you to discuss them further.

Sincerely,

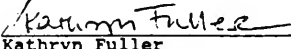
  
 Roger Schlickeisen  
 Defenders of Wildlife

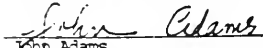
  
 Jay D. Hair  
 National Wildlife Federation

  
 Fred Krupp  
 Environmental Defense Fund

  
 John Sawhill  
 Nature Conservancy

  
 Peter A.A. Berle  
 National Audubon Society

  
 Kathryn Fuller  
 World Wildlife Fund

  
 John Adams  
 Natural Resources Defense Council

-5-

(Attachment follows:)

BACK UP MEMORANDUM

This memorandum sets forth a more detailed description of each of the points referenced in the letter to Ambassador Mickey Kantor dated May 4, 1993. The organizations that signed the letter believe that these points, if achieved, would successfully implement the broader provisions set forth in the letter.

**I. The NACE.****A. The Structure of NACE.****1. Organization.**

The NACE structure would include: (a) as Commissioners the chief environmental officers of each of the Signatories; (b) a Secretariat headed by a Secretary General with a permanent staff; and (c) a permanent Citizens Advisory Board.

**2. The Secretary General.**

The supplemental agreement would provide criteria for the choice of the Secretary General, including a requirement that the Secretary General have trade and environmental experience, management experience and sufficient stature. The supplemental agreement would provide term limits for the Secretary General as well as criteria for the removal of the Secretary General, including, but not limited to, a requirement that the Secretary General be subject to removal only for cause.

**3. The Citizens Advisory Board**

The Citizens Advisory Board would be made up of six representatives from each Signatory and one representative selected by the Secretary General. The six U.S. representatives would be picked by the President and would include at least two representatives from non-profit environmental, conservation, health and safety groups and one representative from a non-profit border group.

**4. The Commissioners.**

Each Signatory would appoint its senior environmental official as one of the three NACE Commissioners.

**5. Role of Commissioners and Secretary General.**

The Commissioners would oversee the operation of the NACE by setting policy guidelines for the Secretary General and by reviewing annual work plans prepared by the Secretary General. The Secretary General would have the power to propose the annual work plans, to implement independently the work plans reviewed by the Commissioners, to issue the reports described below, to

include in those reports recommendations to the Signatories, and to respond to citizen petitions as described below.

## B. The Powers and Responsibilities of the NACE.

### 1. Initial Reports.

No later than two years after the NAFTA becomes effective, the Secretary General would issue separate reports that evaluate and make recommendations concerning the enforcement of environmental laws by the Signatories; the implementation of NAFTA and the side agreements; the relationship of natural resources, biodiversity, agriculture and energy to trade and sustainable development; the status of environmental protection on the borders of the Signatories; and the status of upward harmonization of the environmental laws of the Signatories. An example of a specific description of what would be included in the initial reports is annexed as Exhibit A.

### 2. Annual Reports.

After the issuance of these initial reports, the Secretary General would issue an annual report on enforcement of environmental laws by the Signatories, the status of the environment of the Signatories, and the implementation of NAFTA and the supplemental agreements, as well as any other reports consistent with the work plans for the NACE proposed by the Secretary General.

### 3. Investigations.

The Secretary General would investigate, report on the results of investigations, and make recommendations based on investigations he or she initiates or undertakes in response to public petitions. The Secretary General would grant priority to petitions that allege significant harm to the environment and that relate to transboundary pollution, the global commons and failure to enforce the law against facilities or industries that are involved in the import or export of goods among Signatories. The Secretary General may in his annual work plans set forth additional criteria for setting priorities for conducting investigations and responding to public petitions.

### 4. Policy Fora.

In addition to preparing reports and conducting investigations, the NACE would act as a policy fora to debate and report on environment and conservation issues. To advise these fora, the Secretary General may form ad hoc groups of policy experts and would consult with the Citizens Advisory Board.

## C. Citizen Access.

Any person or organization may petition the Secretary General to undertake investigation of allegations that a Signatory's law is not being enforced, to hold policy fora and to

investigate allegations of damage to the environment or biodiversity as a result of trade.

## II. Enforcement.

### A. Information Gathering.

To gather information necessary to prepare any of the above reports or to evaluate citizen petitions, the NACE would have the power to request that the relevant Signatory government gather information that the Secretary General finds necessary. The Signatories would agree in the supplemental agreements to cooperate fully with these requests and a Signatory responding to a request from the Secretary General for information would seek to obtain such information pursuant to and consistent with the Signatory's laws and regulations. A signatory would notify the Secretary General in writing if the Signatory refuses to or cannot provide the information, with an explanation for its decision.

### B. Verification

If the Secretary General finds that the information it receives about an enforcement of law issue is inadequate, the Signatories agree that they would permit the NACE staff to verify the data by visiting, accompanied by enforcement personnel of the Signatory, the relevant facilities, operations or government officials. The visits would be conducted consistent with the laws and regulations of the Signatory and be of sufficient scope to meet the information objectives of the Secretary General. If a Signatory does not permit such verification, it would notify the Secretary General in writing and provide an explanation for its decision.

### C. Confidentiality

The Signatories and the Secretary General would provide confidential treatment to business records in accord with the law of the relevant Signatory. All notices required by this section would be made public unless the Signatory certifies that making the notice public would interfere with an ongoing criminal or civil investigation.

### D. Public Hearings.

The Secretary General is authorized to hold public hearings in connection with the preparation of reports or the investigation of citizen petitions.

### E. Individual Facility Information.

In preparing general reports and in responding to petitions, the NACE would be able to gather information about individual facilities, and be able to use such information to evaluate enforcement of law by the Signatories.

#### F. Recommendations in Reports and Follow-up.

The recommendations in the reports prepared by the NACE would include an action plan for addressing the issues raised in the report. No later than six months after submitting an action plan to a Signatory (or sooner if so recommended in the action plan) and at regular intervals thereafter until the Secretary General finds that the Signatory has implemented the action plan or a plan that the Secretary General finds would achieve a similar result, the Secretary General would request information on the implementation of the action plan, conduct verification if necessary, and would issue a publicly available report on the status of the implementation of the plan.

#### G. Response to Reports.

The Signatories would respond in writing to the <sup>the</sup> recommendations and fact findings in each report issued by the NACE, and the Secretary General would make public all reports produced by NACE and all responses from Signatories denying the NACE information or verification requested by the Secretary General.

#### H. Chapter 20 Proceedings.

The Signatories would agree that any Signatory who believes that another Signatory has engaged in a pattern of failing to comply with NACE recommendations embodied in an action plan or requests for information and verification by the Secretary General could initiate a dispute settlement proceeding under Chapter 20 of the NAFTA on the basis that such repeated failures nullify and impair the concessions granted in the NAFTA. The parties would agree that Article 2004 of NAFTA provides recourse to the dispute settlement process for these proceedings. Article 2019 sanctions would be implemented where a dispute arbitral panel finds a pattern of a Signatory's failing to comply with NACE recommendations embodied in an action plan and/or failing to respond to NACE requests for information or verification. The supplemental agreements would set forth the factors the arbitral panel would consider in determining whether a pattern of noncompliance had occurred, including but not limited to, the frequency of the failures of the Signatory to comply, the severity of the harm to the environment resulting from the failures, and the time period within which the failures occurred.

#### I. Domestic Law Enforcement.

The Signatories would agree to make available to their own citizens enforcement procedures under their domestic law similar to those in Article 1714 of the NAFTA so as to permit effective enforcement of environmental laws. A sample set of such provisions is annexed as Exhibit B.

### III. Funding.

#### A. Funding for NACE and Border Projects.

The supplemental agreements would provide for a secure source of funds in an amount sufficient to enable the NACE to undertake each of its responsibilities and functions, as well as for infrastructure and cleanup programs on the U.S./Mexican U.S./Canadian borders. In determining border infrastructure and cleanup program needs and priorities, procedures would be established to ensure input from local communities that are affected by the program.

#### B. Funding for Conservation Programs.

In addition to funding the NACE and border infrastructure and cleanup programs, the supplemental agreements would provide a secure source of funds for conservation, biodiversity and ecosystem protection programs.

### IV. Standards.

#### A. Negotiation of Process Standards.

The Signatories would agree to enter into negotiations within six months of the implementation of the NAFTA to discuss criteria for the use of process standards. In addition, the Signatories agree to place a moratorium on bringing cases to dispute settlement panels if the law at issue is designed to protect fish, animals or wildlife outside the territorial land of the Signatories until these negotiations develop applicable criteria for process standards. The implementing legislation would include a provision specifying that arbitral panel decisions adverse to a U.S. fish, animal or wildlife law or regulation would not result in the repeal or amendment of any such law or regulation.

#### B. Dolphin Conservation Act.

The U.S. negotiators would formally request the Mexican government to agree to the International Dolphin Conservation Act moratorium on the practice of setting nets on dolphin to harvest tuna.

#### C. Chapter 9.

The Signatories would clarify that Chapter 9 was intended to allow challenges to an environmental standard-related measure only on the ground that it is discriminatory or was designed as a disguised barrier to trade, not on the ground that it is too strict.

#### D. Chapter 7.

The parties either would agree on language clarifying certain key terms in Chapter 7 that remain ambiguous, including

but not limited to the term "necessary," or would agree that they would not bring cases under Chapter 20 Challenging a sanitary or phytosanitary standard for pesticide residues or contaminants in food under Chapter 7 except on the ground that the standard is discriminatory or was designed as a disguised barrier to trade. Sample language clarifying the terms of Chapter 7 is annexed as Exhibit C.

#### **E. Challenges to State Laws.**

The Administration agrees that it would seek in the U.S. implementing legislation a provision preventing the preemption or interference with states' or other subnational entities' laws or policies on the basis of Articles 105 or 902.

#### **V. Dispute Settlement.**

##### **A. Dispute Settlement Procedure Protocol.**

The Signatories would agree to enter into a protocol setting dispute settlement procedure guidelines for arbitral panels, including but not limited to provisions that: (1) ensure that the burden of proof in a dispute over standards and on a Signatory in a case in which the Signatory is defending an allegation that it failed to comply with NACE recommendations or request for information or verification; (2) provide deference to agency and judicial decisions (except to the extent they conflict with NACE recommendations) and to the laws and regulations of the Signatories concerning the setting of standards; (3) provide that at least one environmental expert would sit on arbitral panels when the dispute involves environmental issues and that the expert would be chosen from a panel of such experts established by the NACE; (4) provide access to all briefs filed before arbitral panels in environmentally-related cases with appropriate protection for national secrets and security interests and confidential business information; (5) make arbitral panels decisions available to the public except when the panel finds it is necessary to redact the decision to protect confidential business information or national secrets and security interests; (6) permit interested persons or organizations to petition an arbitral panel for permission to file amicus briefs and set guidelines for the arbitral panel as to when to accept such petitions; and (7) open hearings on environmentally-related cases to the public with appropriate protection for national secrets and security interests and confidential business information.

##### **B. Input Into U.S. Positions During Dispute Settlement Proceedings.**

The implementing legislation would provide for public input (and, where appropriate, for input from state and local governments) into decisions relating to: (1) the defense of cases in the dispute settlement process of Chapter 20 of NAFTA challenging environmental laws; and (2) whether to bring dispute



settlement proceedings alleging that a Signatory has not complied with NACE action plans or requests.

#### VI. Public Participation.

In addition to the public participation provisions set forth above, the Signatories would agree to enact "community right-to-know laws" consistent with principle 10 of the Rio Declaration.

#### VII. Relation to other environmental and Conservation Agreements.

The parties agree pursuant to Article 104:2 to add to Annex 104:1 additional environmental and conservation agreements, and to list automatically on Annex 104.1 all amendments to the environmental and conservation agreements listed in that annex or in Article 104. Dispute resolution panels would give deference to a Signatories' decision that it has properly interpreted the relationship between the NAFTA and another international environmental agreement. A list of the Agreements that we would like to see added will be supplied in the near future.

#### VIII. Supplemental Agreement.

The Signatories would agree consistent with their domestic law, to take actions that give the supplemental agreements on the environment the same status and effect as the NAFTA itself.

Exhibit A

## INITIAL REPORTS

1. Compliance with Law Report - This report will generally analyze enforcement of environmental law within each Signatory. The first report shall for each Signatory: (a) describe the resources available for enforcement of environmental laws; (b) describe the permit programs for discharge of substances into the air and water and the disposal of substances on the land; (c) determine whether enforcement resources are adequate and what steps can be taken to improve enforcement; (d) determine, after review of a sample of facilities, whether and how the permit program is being implemented and suggest measures to improve implementation; and (e) reach preliminary conclusions as to whether and how well environmental laws are being enforced and recommend steps that can be taken to improve enforcement.

2. Crossborder Report - The crossborder report shall analyze generally the status of crossborder pollution, environmental compliance by maquiladora facilities, the need for additional waste water treatment facilities, and the adequacy of existing agreements relating to crossborder pollution among the Signatory nations. The report shall make recommendations with respect to each of these matters.

3. The Transborder Investment Report - This report shall include (a) a review of compliance with environmental law by firms that are partially or fully-owned by persons (including ultimate parent corporations, partnerships and individual investors) from another Signatory (alternatively, another "nation") and have industrial, agricultural, mining or natural resource operations or facilities in the territory of a Signatory (except for operations by maquiladora facilities which will be covered by the crossborder report) and (b) an analysis of whether any additional steps need to be taken to ensure that foreign-owned facilities come into compliance with or stay in compliance with the environmental laws of the Signatory.

4. Natural Resources, Biodiversity Energy and Agriculture Report - This report shall analyze the effect of increased trade and development on natural resources, energy and agriculture and species diversity beginning with a general analysis of the status of natural resource protection and the threats to biodiversity as of the date of the first report. It shall consider the effect of NAFTA on natural resources and species and make recommendations to alleviate any significant adverse effects it finds.

5. The Side-Agreement Report - This report will monitor compliance with side agreements, including any agreements requiring that the legal systems of the Signatories give citizens effective rights to enforce environmental laws.

6. The Harmonization of Standards Report - This report would analyze whether the Signatories are making progress in achieving upward harmonization of their standards.

EXHIBIT B

## Environmental Enforcement

(Prepared by Justin Ward, Natural Resources Defense Council)

DRAFT 4/7/93

**PREAMBLE**

The Governments of Canada, the United Mexican States and the United States of America (the Parties),

Reaffirming Principle 10 of the Rio Declaration on Environment and Development as agreed to by the Parties, and that it is the right of every citizen to take part in decisions that will affect their personal health and welfare;

Convinced that citizen participation is essential to development and enforcement of environmental laws is essential to sound environmental policy making; and

Deciding to provide for an effective and enduring mechanism that will permanently ensure the rights of citizens to participate in environmental decisions and enforcement of environmental laws;

Have agreed as follows:

**Article I: Enforcement of Environmental Laws and Regulations:  
General Provisions**

1. Each Party shall ensure that enforcement procedures, as specified in this Article and Articles II through IV, are available under its domestic law so as to permit effective action to be taken against any act that violates national environmental laws and regulations, including expeditious remedies to prevent imminent environmental degradation and remedies to deter further infringements. Such enforcement procedures shall be applied so as to avoid the creation of barriers to legitimate trade and to provide for safeguards against abuse of the procedures.

2. Each Party shall ensure that its procedures for the enforcement of environmental laws and regulations are fair and equitable, are not unnecessarily complicated or costly, and do not entail unreasonable time-limits or unwarranted delays.

3. Each Party shall provide that decisions on the merits of a case in judicial or administrative enforcement proceedings shall:

- (a) preferably be in writing and preferably state the reasons on which the decisions are based;
- (b) be made available at least to the parties in a proceeding without undue delay; and
- (c) be based only on evidence in respect of which such parties were offered the opportunity to be heard.

4. Each Party shall ensure that parties in a proceeding have an opportunity to have final administrative decisions reviewed by a

judicial authority of that Party and, subject to jurisdictional provisions in its domestic laws concerning the importance of a case, to have reviewed at least the legal aspects of initial judicial decisions on the merits of a case. Notwithstanding the above, no Party shall be required to provide for judicial review of acquittals in criminal cases.

5. Nothing in this Article or Articles II through IV shall be construed to require a Party to establish a judicial system for the enforcement of environmental laws and regulations distinct from that Party's system for the enforcement of laws in general.

6. For the purposes of Articles II through IV, the term "right holder" includes but is not limited to individuals, federations, associations, and non-governmental organizations that are deemed to have legal standing to assert a right of action to enforce environmental laws and regulations in a representative capacity or on their own behalf.

**Article II: Specific Procedural and Remedial Aspects of Civil and Administrative Procedures.**

1. Each Party shall make available to right holders civil judicial procedures for the enforcement of any national environmental law or regulation. Each Party shall provide that:

- (a) defendants have the right to written notice that is timely and contains sufficient detail, including the basis of the claims;
- (b) parties in a proceeding are allowed to be represented by independent legal counsel;
- (c) the procedures do not include imposition of overly burdensome requirements concerning mandatory personal appearances;
- (d) all parties in a proceeding are duly entitled to substantiate their claims and to present relevant evidence; and
- (e) the procedures include a means to identify and protect confidential information.

2. Each Party shall provide that its judicial authorities shall have the authority:

- (a) where a party in a proceeding has presented reasonably available evidence sufficient to support its claims and has specified evidence relevant to the substantiation of its claims that is within the control of the opposing party, to order the opposing party to produce such

evidence, subject in appropriate cases to conditions that ensure the protection of confidential information;

- (b) where a party in a proceeding voluntarily and without good reason refuses access to, or otherwise does not provide relevant evidence under that party's control within a reasonable period, or significantly impedes a proceeding relating to an enforcement action, to make preliminary and final determinations, affirmative or negative, on the basis of the evidence presented, including the complaint or the allegation presented by the party adversely affected by the denial of access to evidence, subject to providing the parties an opportunity to be heard on the allegations or evidence;
- (c) to order a party in a proceeding to desist from a violation of environmental laws and regulations;
- (d) to order the violator of national environmental laws and regulations to pay the right holder damages adequate to compensate for the injury the right holder or community at-large has suffered because of the violation where the violator knew or had reasonable grounds to know that it was engaged in a violative activity;
- (e) to order a violator of national environmental laws and regulations to pay the right holder's expenses, which may include appropriate attorney's fees; and
- (f) to order a party in a proceeding at whose request measures were taken and who has abused enforcement procedures to provide adequate compensation to any party wrongfully enjoined or restrained in the proceeding for the injury suffered because of such abuse and to pay that party's expenses, which may include appropriate attorney's fees.

3. With respect to the authority referred to in subparagraph 2(c), no Party shall be obliged to provide such authority in respect of subject matter that is acquired by a person before that person knew or had reasonable grounds to know that the production of subject matter would entail the violation of environmental laws and regulations.

4. With respect to the authority referred to in subparagraph 2(d), a Party may, at least with respect to pollution clean-up, authorize the judicial authorities to order recovery of profits or payment of pre-established damages, or both, even where the violator did not know or had no reasonable grounds to know that it was engaged in a violative activity.

5. In respect of the administration of any law or regulation pertaining to environmental protection or enforcement, each Party shall only exempt both public authorities and officials from liability for appropriate remedial measures where actions are taken or intended in good faith in the course of the administration of such laws.

6. Each Party shall provide that, where a civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set out in this Article.

#### Article III: Provisional Measures

1. Each Party shall provide that its judicial authorities shall have the authority to order prompt and effective provisional measures:

- (a) to prevent environmental degradation due to the alleged violation of a national environmental law or regulation; and
- (b) to preserve relevant evidence in regard to the alleged infringement.

2. Each Party shall provide that its judicial authorities shall have the authority to require any applicant for provisional measures to provide to the judicial authorities any evidence reasonably available to that applicant that the judicial authorities consider necessary to enable them to determine with a sufficient degree of certainty whether:

- (a) the applicant is the right holder;
- (b) a national environmental law or regulation is being violated or such violation is imminent; and
- (c) any delay in the issuance of such measures is likely to cause irreparable harm to the right holder (or the community at-large), or there is a demonstrable risk of evidence being destroyed.

Each Party shall provide that its judicial authorities shall have the authority to require the applicant to provide a security or equivalent assurance sufficient to protect the interests of the defendant and to prevent abuse.

3. Each Party shall provide that its judicial authorities shall have the authority to order provisional measures on an ex parte basis, in particular where any delay is likely to cause irreparable harm to the right holder (or the community at-large), or where there is a demonstrable risk of evidence being destroyed.

4. Each Party shall provide that where provisional measures are adopted by that Party's judicial authorities on an ex parte basis:

- (a) a person affected shall be given notice of those measures without delay but in any event no later than immediately after the execution of the measures;
- (b) a defendant shall, on request, have those measures reviewed by that Party's judicial authorities for the purpose of deciding, within a reasonable period after notice of those measures is given, whether the measures shall be modified, revoked or confirmed, and shall be given an opportunity to be heard in the review proceedings.

5. Without prejudice to paragraph 4, each Party shall provide that, on the request of the defendant, the Party's judicial authorities shall revoke or otherwise cease to apply the provisional measures taken on the basis of paragraphs 1 and 3 if proceedings leading to a decision on the merits are not initiated:

- (a) without a reasonable period as determined by the judicial authority ordering the measures where the Party's domestic law so permits; or
- (b) in the absence of such a determination, within a period of no more than 20 working days or 31 calendar days, whichever is longer.

6. Each Party shall provide that, where the provisional measures are revoked or where they lapse due to any act or omission by the applicant, or where the judicial authorities subsequently find that there has been no violation or threat of a violation of an environmental law or regulation; the judicial authorities shall have the authority to order the applicant, on request of the defendant, to provide the defendant appropriate compensation for any injury caused by these measures.

7. Each Party shall provide that, where a provisional measure can be ordered as a result of administrative procedures, such procedures shall conform to principles equivalent in substance to those set out in this Article.

#### Article IV: Criminal Procedures and Penalties

1. Each Party shall provide criminal procedures and penalties to be applied at least in cases of willful violation of an environmental law or regulation for a commercial purpose. Each Party shall provide that penalties available include imprisonment or monetary fines, or both, sufficient to provide a deterrent,

## Exhibit C

(Prepared by Justin Ward, Natural Resources Defense Council)

### III. CLARIFICATION OF NAFTA PROVISIONS AFFECTING HEALTH AND ENVIRONMENTAL STANDARDS

Throughout the NAFTA process, we have repeatedly expressed concern that the trade agreement not become a vehicle for undercutting the ability of our society to protect public health and the environment. We accept the concept in NAFTA that environmental and health standards should neither unjustifiably discriminate against imported goods nor create disguised trade restrictions. We also recognize that it may be very difficult to document and prove intent on the part of a country to misuse health and environmental standards to restrict trade.

Chapter 7 of NAFTA attempts to address this problem by establishing a more objective test of the validity of "sanitary and phytosanitary" (S & P) measures, including standards to protect human health from pesticides and other food contaminants. Unfortunately, the current NAFTA text, although improved over earlier versions and proposed GATT language, still goes too far. It would allow NAFTA dispute panels to second guess the democratic decisions made at the federal, state, or local levels in our country as to 1) the existence and acceptability of environmental and health risks, and 2) the choice of appropriate protective measures. Administrative agencies most often make such "risk assessments," but legislatures, courts and the electorate have both legal rights and important roles to play in making these choices.

Language in the NAFTA side agreements should make it clear that health and environmental decisions are not subject to full reconsideration under NAFTA, but can only be challenged as lacking a rational basis or as "arbitrary or capricious" resulting from an unfair or unreasonable decisionmaking process. U.S. standards adopted in conformity with the Administrative Procedure Act or similar laws would be free from such scrutiny. We also must recognize the inevitable uncertainty associated with health and environmental risks, and nonetheless act to prevent injury to health and the environment -- the so-called "precautionary principle."

As currently drafted, NAFTA fails to recognize fully that food safety standards involve judgments about both technical evidence and social policy. Instead, NAFTA treats them as solely within the province of "science," a term that is not defined in the text, and the result of administrative "risk assessment," a term that is defined in detail (Articles 715, 724). Our concern is that NAFTA might be interpreted by dispute panels as requiring that health and environmental measures rest upon the kind of certainty



generally associated in many people's minds with scientific experiments or as requiring the support of all or most scientific opinion.

In a side agreement, the NAFTA Parties should explicitly recognize the entire range of governmental institutions at the national and subnational levels that may be involved in the adoption and application of health and environmental measures and in carrying out "risk assessments." These include administrative agencies, legislatures, the courts, and electoral referenda. The side agreement should also adopt a "dictionary" definition of "science" such as the "systematic pursuit of knowledge through observation and experimentation." These definitions would permit challenges to measures only in those cases where there is simply no supporting analyses, where supporting analyses can be shown to have no factual basis or to be fundamentally flawed, or where the decision-making process is totally unfair. The clarifications we are proposing would be consistent with the way NAFTA's intent has been interpreted by trade and environmental officials in each country.

We are well aware and indeed share some of the concerns regarding the closed nature of the dispute settlement procedures under NAFTA. We should first recognize that these panels are not like federal courts. They do not now have the power to overturn or preempt domestic standards. Instead the panels are mechanisms for trying to resolve diplomatic disputes when negotiations fail. Nonetheless, a finding that a health or environmental measure is an unfair trade barrier could have significant legal and political impacts in national fora.

We do not favor turning the NAFTA panels into trinational courts.<sup>1</sup> Instead, we should sharply limit the scope of their review with respect to health and environmental standards. As suggested above, the panels should consider only whether the decision-making process and basis underlying a contested measure were rational with some factual basis and not arbitrary and capricious, and, of course, whether the measure discriminates unjustifiably against international trade.

The Parties should also adopt provisions to assure the opportunity for meaningful participation in trade disputes by concerned citizens, non-governmental organizations, and state and local government bodies. This would include public access to submissions, decisions, and proceedings of panels, and rights to make written and oral submissions to dispute panels.

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<sup>1</sup> As discussed above in our recommendations on the NACE, we support moving toward new disciplines that would treat unmitigated environmental enforcement lapses as actionable trade violations. Such violations could be addressed within the NAFTA dispute regime with environmental expertise furnished by NACE.

We have proposed to USTR the following specific clarifications to the NAFTA disciplines governing S & P measures:

Clarifications of Article 712

*The Parties recognize that the adoption, maintenance, and application of sanitary and phytosanitary measures may involve actions by regulatory agencies, legislatures, courts, electoral referenda, and private standard-setting bodies at both the national and subnational levels. The Parties further recognize that these actions may take place in circumstances where risk assessments, as required in Article 712.3 (c) and prescribed in Article 715, may not be appropriate or feasible.*

Additional language for Article 712.3

*(d) is not arbitrary or capricious, but based upon a fair and open process in which there is consideration of scientific evidence and opinion, and policy options and preferences.*

This subsection would be added to an Article establishing the conditions under which a Party may adopt, maintain, or apply S & P standards. This language much more accurately reflects the reality of S & P standards decision-making than the current formulation in NAFTA. It would insulate from NAFTA challenge U.S. measures, which by law must be established and carried out with due process. At the same time, this formulation would protect the interests of American exporters against "midnight" or "off-the-wall" regulations. Where there are significant procedural failures or lapses, Parties would be able to question the validity of resulting standards.

Additions to Article 724 Definitions

*"necessary" means reasonably required*

Articles 712.1 and 712.5 use the term "necessary" in regard to S & P measures, which Parties are free to adopt and apply. There is concern based upon earlier GATT practice that the term "necessary" might be construed to mean "least trade restrictive."<sup>2</sup> (To the negotiators' credit, Chapter 9 of NAFTA governing "Technical Barriers to Trade" omits the troubling "necessary/least trade restrictive" test.) NAFTA trade panels should not be empowered to second guess the judgment made by domestic authorities as to the

<sup>2</sup> Testimony of David A. Wirth, Assistant Professor of Law, Washington and Lee University, before the House Committee on Science, Space and Technology, September 30, 1992; S. Charnovitz, "NAFTA: An Analysis of its Environmental Provisions," 23 *Environmental Law Reporter*, p. 10068 (February 1993).

best means to protect life and health. With the proposed clarification, a Party challenging such a measure under NAFTA would have to prove that there was no reasonable nexus between the measure and the accomplishment of its specific objective to protect life and health. A measure could not be viewed in violation of NAFTA just because there was theoretically an equally effective, but less trade restrictive, alternative.

*"Scientific" refers to the systematic pursuit of acquiring knowledge through study or practice*

*"Basis" refers to any factual support, theory or opinion that is neither irrational nor arbitrary or capricious.*

Article 712.3(a) states that Parties must establish S & P measures based upon "scientific principles." Article 712.3(b) obligates the Parties not to maintain S & P measures where there is no longer a "scientific basis," defined in Article 724 as "a reason based on data or information derived using scientific methods." However, the term "scientific" or "science" is never defined.

Our proposal is to adopt the "dictionary" definition for the term, which refers to the reasoned process by which knowledge is gained through observation or experimentation. Under this definition, NAFTA panels would not be able to substitute their own judgment for those of national authorities as to whether the "science" underlying the measure were "good" or "adequate." Instead, such measures could be successfully challenged only if it could be shown that there were no supporting analyses.

#### Addition to Article 105

*The Parties agree that measures taken to secure observance by state, provincial and local governments of provisions of this Agreement shall not diminish nor impair the constitutional and legal rights of state, provincial and local governments to adopt, maintain, or apply measures to protect public health and the environment.*

This language would recognize the rights of states (granted in the U.S. Constitution and by federal statute) to adopt more exacting health and environmental standards than those of the federal government. It is critical that the NAFTA side agreements and implementing legislation make clear that the U.S. Federal Government will not be required or expected to preempt state or local requirements in any manner that is inconsistent with existing law.

Clarification of Article 2012

*The Parties agree in advance that in any dispute involving environmental or health issues, the rules of procedure must require the prior publication of written submissions to the panel, permit sub-federal governmental bodies and nongovernmental organizations to present written and oral submissions to the panel, and assure public access to panel proceedings and initial and final panel reports.*

It is critical that the public have an opportunity to participate meaningfully in disputes that go beyond purely commercial matters to raise health and environmental concerns. Our proposed language would not upset the general assumption that dispute panel deliberations would be confidential. Instead, the Parties would agree, as permitted by Article 2012.2, to treat health and environmental disputes more openly.

# NORTH AMERICAN FREE-TRADE AGREEMENT

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THURSDAY, SEPTEMBER 30, 1993

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The committee met, pursuant to call, at 9:35 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives English, Volkmer, Long, Peterson, Minge, Pomeroy, Roberts, Emerson, Lewis, Smith of Oregon, Nussle, Kingston, and Smith of Michigan.

Staff present: Joseph Muldoon, associate counsel; John E. Hogan, minority counsel; Glenda L. Temple, clerk; Anita R. Brown, James A. Davis, Xavier Equihua, and Lynn Gallagher.

The CHAIRMAN. The committee will be in order. We welcome you back and we appreciate your accommodating the committee. I understand Mr. English had some questions he would like to propound to you. I recognize him at this time.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Banks, welcome back. I appreciate you coming back. We visited a little yesterday afternoon after the committee adjourned with regard to the question of our meat import laws, particularly as they apply to the quotas and the Customs Service's responsibility to make sure those laws are adhered to.

You were telling me that under NAFTA there would be a different approach as far as the techniques that the Custom Service would use; is that correct?

**REMARKS OF SAMUEL H. BANKS, ASSISTANT COMMISSIONER, COMMERCIAL OPERATIONS, CUSTOMS SERVICE, U.S. DEPARTMENT OF THE TREASURY, LEONARD CONDON, DEPUTY ASSISTANT TRADE REPRESENTATIVE, AGRICULTURAL AFFAIRS, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, AND SUSAN REID, ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE**

Mr. BANKS. To some extent, that is correct.

Mr. ENGLISH. Could you explain exactly how those procedures would work?

Mr. BANKS. Yes. The real difference when you get into the NAFTA arrangement and applied to the Canadian Free-Trade Agreement as well has to do with the importance of rules of origin, the critical decision point in terms of are you going to give tariff preference or not to these goods.

The difficulty with origin of goods is it is not readily apparent at the border. You can't inspect and tell this product was made in this country. It is not our standard way of operating.

I would still say that our first line of defense in enforcing NAFTA or any other agreement is one, the inspection process, which insures that the products that show up are what they say. If it says this is frozen processed meat, is it indeed frozen processed meat?

If it says 150 boxes, are there 150 boxes in the container? That is the fundamental beginning. The second part has to do with trying to establish whether it is an origin issue. The first point on this is that when you get a shipment under the Canadian Free-Trade Agreement or as we will under NAFTA, there will be an exporter's certificate of origin.

It is a declaration by the exporter and by the importer. Because the importer has to file the entry, it will say these are the products and it is under this category that this meets the rule of origin under NAFTA. That is the document that we use as the fundamental starting point to begin our review.

I am not going to say we are going to review every one of them. We can't. We will be selective in what we review. In fact, we will be selective when we ask for these documents. Import specialists will get the documents and review and determine is this reasonable; in this way the trade pattern appears.

If there are questions, the beginning point would be to send out a questionnaire to the importer and even to the exporter of the products, and they are pretty detailed questionnaires developed under the Canadian Free-Trade Agreement, and we are working up additional ones for NAFTA.

I get a response back from the importer. You may get it from the exporter, with follow-up bills of lading, purchase orders—you may have a series of different questions that you have to ask depending on the rules of origin. If the import specialist has suspicions or doubts, he would do an importer compliance review, go to the importer's premises and review what is going on, or go into their records and look at their documents.

We have unique authority that began under the Canadian Free-Trade Agreement and is present in NAFTA. The import specialist can go to Mexico or Canada to the exporter's premises and they can review the operation going down plus the documentation and the way they have set up their business. If there is suspicion at that point, we can deny preference or we can turn it over to auditors.

We have auditors dedicated to free-trade agreement issues and they go on a referral basis. They go through all of the books of the company and it is a much more detailed analysis of the way the companies operate, particularly where they bought their goods.

The CHAIRMAN. Would the gentleman yield?

We have started beyond the beginning. I wish all of my colleagues were here. I at one time had a share of a custom brokerage house. In my area—and I don't know about New York or someplace else—in my area, on the Mexican side, you have to have a customs broker for the goods to exit; they handle all the documentation.

On the United States side, you have to have a customs broker that handles the documentation. Is that correct?

Mr. BANKS. You typically have a customs broker. Yes, sir.

The CHAIRMAN. They all do. There is a problem; the Mexicans are doing it at both ends. That is another issue we will discuss later. At my end, the customs officials know the customs brokers. They live with them daily. They know the shippers of the products in our area. The customs brokers and the customs officials know the companies in Mexico. They know everyone. This enhances their ability to do their job because they know what product is coming from what company and they know the owner of the company. They know the Mexican customs broker and the United States customs broker. So it is not like you are blindly at the border and the truck shows up with a product that you are going to inspect. That is where you were.

Mr. BANKS. That is correct, Mr. Chairman. That is the case. After you work this issue, you do become familiar with the people and which of the companies are exporting and how they operate. Probably equally important today is that we are automating a lot of this so we have an automated system that shows blips on the record, so you don't just depend on human knowledge.

When you are asking what is our array of enforcement tools on NAFTA, it is the inspector first of all. It is the import specialist to go through the documentation. It is the auditor to do the more detailed work; and last if it gets into criminal activity you bring in special agents. That isn't provided for under NAFTA, but it is provided for under our customs assistance agreement that we have with Canada and Mexico and we would revert back to these normal procedures.

That is our array of tools to enforce the Canadian Free-Trade Agreement and that we are staging to enforce NAFTA.

Mr. ENGLISH. How does that differ from the procedures that you would follow today?

Mr. BANKS. Except for certain areas like textiles, rules of origin are real important. The typical thing you get today is somebody files an entry and says, "I am bringing in 10 widgets," and you run it through the automated system to see if there is information. Then an officer says, "I want to look at this shipment."

It could be for narcotics reasons. It could be for commercial reasons.

Mr. ENGLISH. I am talking about the mechanism you have in place today as opposed to this system.

Mr. BANKS. You usually don't get into heavy-duty questionnaires. The added points are questionnaires based on rules of origin. The auditors are something we have especially dedicated to free-trade agreements.

Mr. ENGLISH. You are saying the only difference between what the procedures are today and the procedures that would be followed under NAFTA in dealing with this is the paperwork involved, namely the questionnaires?

Mr. BANKS. No, sir.

Mr. ENGLISH. Are there additional personnel that have been added to the Canadian border? Will there be additional personnel added to the border with Mexico? Will there be additional investigators? Will they have authority to go into Mexico and Canada

and investigate as far as making certain that the paperwork is correct?

I am wondering, are we going to see a substantial increase in the amount of resources that would be dedicated to carrying out the law?

Mr. BANKS. I don't think we will see a substantial increase—

Mr. ENGLISH. We are talking about basically the same people, the same percentage, the same numbers that we have today?

Mr. BANKS. Yes, sir, but there is a major distinction between the NAFTA agreement and what we have normally. We don't have any authority normally to go into the other country to look at foreign manufacturers, to go through their premises to review their books. None of that authority exists in almost any other environment. That is the major distinction.

We can go to the source to look at—

Mr. ENGLISH. It has also been my experience certainly with regard to the drug war, that the number of people, the amount of personnel, the amount of resources that you have available at hand determines to a great extent your ability to enforce the laws. If what you are telling me is that what you have today to deal with is any meat that comes over the border as far as the country of origin—that meat is a part of that countries quota.

So whenever that meat comes over that border, if it exceeds that quota, that is the end of it; is that correct?

Mr. BANKS. That is correct.

Mr. ENGLISH. But say that under this process we have a meat carcass that is shipped in. The fellow is Joe Blow in Mexico, you know his company. He will be selling to company XYZ in the United States. You know both of them. They are reputable people.

But Joe Blow in Mexico, he didn't buy that carcass or those cattle from someone reputable in Mexico. He bought that carcass from another company in Mexico and it is a company that does not normally export to the United States and you don't know them from Adam. All Joe Blow has on his books is "I purchased this meat from this company and you have no idea where that meat came from, do you?"

Mr. BANKS. That is not correct. That authority is provided under NAFTA.

Mr. ENGLISH. So you can go interview the guy that he bought the meat from?

Mr. BANKS. Absolutely. If he purchases meat from another supplier, he has to certify the origin from the other supplier and we have authority under NAFTA to review it. Under the Canadian Free-Trade Agreement, we have done this in a number of circumstances, traced it back through the process.

The CHAIRMAN. Would the gentleman yield? Our law provides that slaughterhouses in the countries of the world have to meet the standards we set for ours. We send inspectors to go there. We have a list, a documented list, of every slaughterhouse in Mexico and by whom it is owned. Periodically, we send the Federal meat inspection people to visit those plants to see that they fulfill this requirement and that they have the same standards as we do.

This is done periodically. That is the law. So there are no slaughterhouses that can export that are not certified. A slaughterhouse



that is not certified by the Mexican and United States Governments under our meat inspection system cannot ship to the United States. Is that correct?

Mr. BANKS. That is my understanding from the Department of Agriculture, that is indeed what happens. We are adding to that process with the capability for customs officials as well to review the procedures. If I could return for a second to the resource issue, actually there has been a tremendous change, especially along the southwest border, in terms of the resources that we have been able to dedicate to the efforts down there.

I would say one of the first things that happened over the last few years is that the Congress added additional funds to improve the facilities down there. If you go there today and compare it to 5 years ago, today it is far superior.

We now have the capability to do examinations and to process trucks efficiently. We put technology into place, especially automation, and also all sorts of examination technology. We have added additional resources down there over the last few years.

Are we going to add more as of January 1, 1994? No, but we added additional import specialists and auditors 2 years ago. Last year we added 200 more inspectors on the southwest border. This year we are adding another 100.

The focus of those resources I think is very important, too. Based on GAO criticism of how we enforce our trade programs, they said we had to develop a trade enforcement strategy, which we have done. There are six top priorities for Customs to enforce, all different facets of the Customs Service.

The No. 1 priority on the list is abuse of trade agreements; including transshipment and false country of origin violations. The textile bilateral trade agreements and Canadian free trade are on the list. When NAFTA goes on the list it will be No. 1.

No. 2 is antidumping and countervailing duties; No. 3 is public health and safety; No. 4 is forced labor; No. 5 valuation, revenue, and transfer pricing; and No. 6 is intellectual property rights.

One, we have put more resources especially on the southwest border over the past few years and created an environment to do our work. We are focusing the energy of the entire service on the trade enforcement strategy.

Mr. ENGLISH. Some of the resources were added to the Customs Service as a result of drug money to deal with the drug problem along the border. There were a lot of resources put there. I notice in your list you didn't mention drugs. Are you telling me that drugs are no longer a priority along the southwest border with regard to the Customs Service?

Mr. BANKS. No, sir.

Mr. ENGLISH. Are you telling me that resources that were added along that border were not placed there as a result of the war on drugs, but were put there for trade purposes instead?

Mr. BANKS. They were put there for both purposes. Secretary Bentsen made that quite clear.

Mr. ENGLISH. If I recall, those resources were placed there before this administration took place, not after.

Mr. BANKS. The approval was done before.

Mr. ENGLISH. Money was appropriated for that purpose. Those resources are along that border. I want to take this back down and make sure we are tying this thing to exactly what we are talking about.

I recall several years ago we got into the issue as far as the Department of Agriculture, with regard to slaughterhouses. Overseas I think there were some 33 to 36 countries from which we are importing meat from into the United States. We were told at that time that we have inspectors in those countries that determine and make sure the meat is safe.

At the time, the focus was on drugs and chemicals banned in production of meat in this country. Customs and USDA supposedly inspect the meat when it comes into this country. They couldn't tell whether drugs were used in production of that meat. It had to be done at the point of slaughter.

Out of 33 or 36 countries, there were some 23 countries in which we had only one person. The remainder of those countries we don't have a soul. How much time do you figure they spent in those slaughterhouses? Obviously not very much. We had one guy to cover the whole country.

The CHAIRMAN. That is not the Customs Service.

Mr. ENGLISH. You raised the point—the point that I am trying to make—

The CHAIRMAN. That is not the responsibility of Customs—

Mr. ENGLISH. I wanted to make the point because what I am coming back to—

The CHAIRMAN. If the gentleman wants USDA to question, we will call USDA.

Mr. ENGLISH. The point is this: When we are talking about USDA and the number of people, we use this broad description. We have people there examining slaughterhouses. We have people who are going to be examining paperwork. The fact of the matter is unless the Customs Service has changed a great deal since I chaired the oversight of the Customs Service, particularly regarding the war on drugs, you don't have the resources to cover these bases. You didn't have it on the war on drugs and I sincerely doubt you are adding additional people for trade. Maybe you are taking them away from the war on drugs.

Lack of resources is going to limit severely your ability to carry out and make sure, even checking the paperwork that you are talking about, because you are talking about a substantial increase in workload; but to follow-up and make sure the paperwork you are getting is valid—the guy in Mexico may be a straight arrow, but he is going to be buying from a lot of different sources.

There is an additional problem which further complicates this. We have had reports of some meat processors that are looking at the possibilities of moving to Mexico. After meat is processed, and is ready for shipment to the United States, it is going to be even more difficult to have a handle on this.

It may be meat produced in Mexico or imported. You will have a hard time trying to determine for certain whether or not that processed meat contains any meat that is from some other country; is that not true?

Mr. BANKS. The burden of proof is on the exporter. If there is any commingling whatsoever, it does not get free-trade preference. We can't cover the universe, but we can identify the high-risk areas. We have done this with the Canadian Free-Trade Agreement. We denied trade preference to a number of very large companies.

I had the privilege of being called a third-rate, tinpot bureaucrat by the Prime Minister of Canada for denying trade preference to a very large industry there. The Canadians do it to us also. We have the resources and we are in the process of training those resources.

Those resources today do this sort of work with the way we operate. We are retraining them to operate a different way under NAFTA.

Mr. ENGLISH. Given your experience and what you are going through in Canada right now, and you are getting ready to further compound the difficulty of the situation, I think you would not disagree that dealing with Canada today is far more difficult than it was dealing with Canada before the agreement?

Mr. BANKS. In certain areas, it is more difficult. In other areas it is simpler.

Mr. ENGLISH. You will further compound that difficulty when Mexico is added to the list and you will have more difficulty with trying to cover those bases, and, you are telling us, with no increase in resources. With regard to all the paperwork that is going to be generated and from what you testified earlier, that questionnaire is really going to be the major difference between Canada and Mexico.

You are going to have the ability to check on the paperwork in the countries, but basically what you are relying on—the heart of this thing comes down to a larger questionnaire, which they will have to fill out, and question is whether or not that questionnaire is legit.

Mr. BANKS. No, sir. That is a tool. We will rely on the capability to go into those exporters' facilities.

Mr. ENGLISH. How many people will you have available day in and day out to investigate in Mexico and in Canada?

How many people will you actually have on the ground to cover those entire countries?

Mr. BANKS. They are not permanently assigned there.

Mr. ENGLISH. How many people will you have spending how many days in those countries checking that paperwork?

Mr. BANKS. I can't give you that number.

Mr. ENGLISH. How many do you have in Canada today?

Mr. BANKS. I don't know, but we have people there every day.

Mr. ENGLISH. Do you have any ballpark figure; 1 person, 50, 1,000?

Mr. BANKS. The numbers we have on the southwest border—

Mr. ENGLISH. You are talking about Canada. We are going to use the same procedure in Mexico. How many people in Canada today are checking paperwork and making sure the questionnaire that you are going to be relying on so heavily is in fact accurate?

Mr. BANKS. I can't tell you accurately.

Mr. ENGLISH. Would it be 56 people?

Mr. BANKS. I would say it is far in excess of that. We have standing audits going on in a number of these locations. We probably have maybe 15, 20 auditors up there going through major audits.

Mr. ENGLISH. You have 15 to 20 people checking in Canada, roughly?

Mr. BANKS. That is auditors. In addition, we have import specialists to go there to visit the plants as well.

Mr. ENGLISH. Will you have 20 people all together?

Mr. BANKS. I have no idea. It varies.

Mr. ENGLISH. Surely you have a feel on average how many people the Customs Service is going to have on the ground that are going to be checking this stuff?

Mr. BANKS. I can't tell you how many people are there. We probably have 15 to 20 people dedicated to audits there now. We have 100-plus import specialists that are up there that are going in and out all the time.

Mr. ENGLISH. If a guy goes across the border and comes back, that isn't doing a whole lot. If he is just in the country—"I will be here for 1 or 2 hours and I will be right back." The meat industry of this Nation will be relying on that. What you are telling me is you are not going to have additional resources.

You can't tell me how many people you will have in auditing making sure this reliance we have on the paperwork is going to fly.

Mr. BANKS. I will try to find out this week how many people we have there today.

The CHAIRMAN. Would the gentleman yield? Again you have to know the issue and you have to know the background. I would not want you to give numbers here because—even though our colleague insists—there are only six or seven plants in Mexico that are certified to export. I don't know that you can tell us how many people or whatever. Second, the process. Again, we have to know that APHIS has a responsibility, and Food and Drug has a responsibility that backs you up.

The item is your responsibility, not the quality of that item or not the other area. That is Food and Drug, and that is meat inspection and APHIS. How do you handle the Australian boxed beef or chilled beef or frozen beef that comes into the west coast? How do you handle that now?

Mr. BANKS. When it comes in, there are meat inspectors available. They pull out the frozen boxes, saw some of them and run them through. Those are not our personnel. We insure that it is the right amount of meat that is coming in and that it is indeed meat inside those boxes and not contraband they are trying to bring in.

Mr. ENGLISH. One final comment real quick.

Mr. SMITH of Oregon. I am a patient man. I sat here for 2 hours yesterday and have been here for half an hour this morning, and I haven't asked a question yet. I have only been here 11 years. Maybe when I have been here 15 years I can ask a question.

The CHAIRMAN. Let's yield to the gentleman from Oregon.

Mr. ENGLISH. I wouldn't want to impose on the gentleman from Oregon. Something leads me to think that he is growing very impatient over there and I wouldn't want to impose on his time.

Mr. SMITH of Oregon. I thank the chairman and the gentleman from Oklahoma.

My one question, and then I am going to leave quickly—

The CHAIRMAN. We have other business on the floor shortly.

Mr. SMITH of Oregon. How many entry opportunities are there from Mexico to the United States that could haul cargo?

Mr. BANKS. We have seven major ports of entry. There are other crossings, but seven major ports of entry get the bulk of it.

Mr. SMITH of Oregon. In those other ports and in those other entries, are they manned by somebody and watched carefully?

Mr. BANKS. Yes, sir.

Mr. SMITH of Oregon. The argument that I have heard has always been we can't control the border for the people. How are we going to control the border for products? Obviously my question goes to that point. There is 1,000 miles of entry I suppose on foot for people, but there are seven ports of entry, and how many other ports, would you guess?

Mr. BANKS. How many other total crossings that there might be?

Mr. SMITH of Oregon. Yes, that you could move products in any quantity.

Mr. BANKS. Oh, not in any quantity. Those seven are where it is going to come in quantity. I would add another 10 where there is some more coming in. It is no secret that as far as people moving across that border, it is open. If somebody really wants to put something in a four-wheel and get it around us, then it is the responsibility of the patrols.

There are people out there, but a lot of it is protected by patrols. We are talking about the containerized cargo. The trucks coming in don't have much choice but to come in through ports of commerce.

Mr. SMITH of Oregon. How many ports of entry are there from Canada to the United States?

Mr. BANKS. There are a lot. There are probably 125 ports along the border. Not all are commercial centers. We have 28 commercial centers.

Mr. SMITH of Oregon. From that point of view, you would have to say that controlling the Mexican border commerce-wise is much simpler, takes less people than does the Canadian border, if you were looking for illegal entries of products?

Mr. BANKS. In some cases, it is more controlled.

Mr. SMITH of Oregon. Takes less people?

Mr. BANKS. I can't say that because of what Congressman English said, and that is the narcotics issue.

Mr. SMITH of Oregon. I am not talking about narcotics. I am talking about importing illegal beef.

Mr. BANKS. When we examine merchandise, we do the whole thing. You are correct.

Mr. SMITH of Oregon. What is the penalty if I violate the law, importing illegal beef from Mexico to the United States? What is the penalty?

Mr. BANKS. Depends upon your level of culpability. It can be substantial under 1592. The statute is 19 U.S.C. 1592. It would be up to four times the value of the merchandise, I believe, but I would be happy to supply that for the record.

Mr. SMITH of Oregon. Is there a fine or jail term with it, second offense or what?

Mr. BANKS. Under 1592, if we find somebody and there is simple negligence, the typical penalty is two times the duty that would be involved in this process. If there is an additional violation, it goes up to gross negligence. At that point, I think it goes to four times the duty. If there is fraud, it significantly climbs up.

Mr. SMITH of Oregon. I may lose my license?

Mr. BANKS. At least under NAFTA we can permanently deny you trade preference. We can't actually shut you down as far as an exporter or importer. We can give you the privilege of being examined 100 percent every time you come in.

Mr. SMITH of Oregon. Thank you.

The CHAIRMAN. Let me clarify something. Not every port of entry can you bring live cattle across.

Mr. BANKS. No, sir.

The CHAIRMAN. It has to be a certified port that has the facilities.

Mr. BANKS. Yes, sir.

The CHAIRMAN. The States also have a responsibility in animal health and products. The State of Texas and the State of California, they have their own sets of laws in combination with our Federal officials.

Mr. BANKS. Yes, sir.

The CHAIRMAN. Does the gentleman want to come back to his question?

Mr. SMITH of Oregon. No, Mr. Chairman.

The CHAIRMAN. Mr. Lewis.

Mr. LEWIS. I would like unanimous consent for the gentleman from Alabama, Mr. Everett, to put a statement in the record.

[The prepared statement of Mr. Everett follows:]

## HONORABLE TERRY EVERETT

AG Hearing on NAFTA and the Supplemental Side  
Agreements  
Full Ag Committee  
September 29, 1993

## OPENING STATEMENT:

I would like to thank Chairman de la Garza and the Ranking Member Mr. Roberts for having this hearing today on NAFTA. As you all know by now, I have been a strong opponent of NAFTA and I welcome the opportunity to question Mr. Kantor on these side agreements as well as Ms. Browner and Mr. Espy.

When I was elected to Congress, I was opposed to the creation of the North American Free Trade Agreement because of its harmful effects to the Second Congressional District. For example, the Second District has almost 20,000 apparel cut and sew workers whose jobs would directly be threatened under NAFTA. In addition, my district is the third largest producer of peanuts in the U.S. Under NAFTA, producers, shellers, and all the other industries that depend upon peanuts would be devastated. Entire communities in the Southwest corner of Alabama, of which my hometown is one, would be economically devastated.

Right now, the U.S. allows only 774 metric tons of foreign peanuts to be shipped into the United States each year. After NAFTA, Mexico would be allowed to multiply this amount by more than a factor of 4 to a level of 3,377 metric tons -- duty free the first year, and then receiving a 3% increase every year thereafter.

As everyone here is aware, NAFTA sacrifices Section 22 of the Agricultural Act of 1933, as amended. This provision allows the U.S. to limit imports to protect the operation of and lower the cost of operating domestic farm programs. I note, for example, that in developing the Canadian Free Trade Agreement, Section 22 was not eliminated. Canada maintains a similar program known as Article Eleven and has strongly protected it against elimination by the GATT discussions. Since Mexico is not a net exporter, the elimination of Section 22 was not necessary. It appears to me that this is encouraging peanut production in Mexico, displacing U.S. production. **This unfairly penalizes the American farmer which has consistently maintained the highest food quality and safety standards in the world.**

Thank you Mr. Chairman, and I look forward to the testimony and "enlightened exchange" I'm sure we will have here today.



Mr. LEWIS. I would like to talk about tomatoes one time. You were correct yesterday when you talked about tomatoes, but for 1 month during the period when heavy rain drenched the AQUI Valley in Mexico, January of 1992—

The CHAIRMAN. They made more money than they did in 10 years.

Mr. LEWIS. That is true, but Mexico also supplied the tomatoes when the Florida tomato crop was wiped out by a winter freeze a few years ago. What the greatest concern is and what cannot be set aside is the unfair competition. This year, Mexican and Florida tomatoes were commanding an equivalent price of \$13 for a 25-pound box.

Mexico dumped its tomatoes on the market, forcing the price down, in February 1993. That is why we are looking for the side agreement under NAFTA, to make sure that we don't have this problem. We already have an ongoing suit on dumping practices, and this is a concern of the tomato industry.

The CHAIRMAN. I share that concern with you. The tomatoes Florida sold to Mexico sold as high as \$25.

Mr. LEWIS. That is true.

The CHAIRMAN. Mr. Banks, we have some legislation on the floor. I am going to have one of my colleagues preside over the committee, and there may be more questions. We thank you for coming. I would like to invite you back. I think that we need you, APHIS, Food and Drug, Meat Inspection Service, so that all the Members can be apprised of all the technicalities so we can have a complete picture and address the concerns that some of us have.

We will be getting back. Thank you for your appearance.

Mr. LEWIS. Mr. Banks, I want to follow up with what Mr. Smith of Oregon stated. Who has the final responsibility to enforce border crossings?

Mr. BANKS. We do. At least for merchandise we do for sure.

Mr. LEWIS. That is what I am speaking of. He is referring to beef and so is Mr. English of Oklahoma, but fruits and vegetables have the same connotation. Why is it that American businessmen when they go there since NAFTA has started, they witness this and they don't find the execution that you point out that you are trying to do?

You can't do it now when we don't have a NAFTA and the traffic is going to be tripled and quadrupled almost immediately if we have a NAFTA. How are you going to have people on station to do this?

Mr. BANKS. The examinations and inspections?

Mr. LEWIS. Yes.

Mr. BANKS. We probably have one of the highest levels of examination rate in the country on the southwest border. The only place equivalent may be in the Miami area. We have a pretty significant examination rate. One of the things that we did in building these new facilities was to build impoundment lots where we have truck bays, where we could write trucks up at the same time.

The brokers get together and pay for the labor involved. We actually have laborers come in. All the inspectors have to do is go from one to another. They don't have to unload all the trucks in order to go through this process. I am not sure how to respond to that.

I have been there and at least for the examinations, those import lots are pretty full of trucks that we are in the process of examining.

Mr. LEWIS. The brokers knowing each other on both sides of the border and you knowing them as well, that is fine, but everybody isn't as honest as the chairman and the friends he brokers with across the border. American businessmen have looked at this there and are very much concerned. I think this is one thing I question as to whether or not you will have the capabilities, because for some reason or other not only in something like this, and as Mr. English pointed out, he was aware of the additional customs agents because of the narcotics traffic.

But nonetheless, we get into the situation that Congress doesn't give you the money that you need or OMB won't let you ask for the money you need through the Department of Justice, so you don't get the investigators and inspectors. I am concerned about that and so are the agricultural interests in Florida.

I have another question that I would like to ask you and you may or may not be able to provide any information on it. The Florida industry and agriculture is concerned about having some sort of a data base, a data base that tells what the traffic is coming in and various produce, fruits, vegetables, what have you. What part would customs play in trying to establish or could they be a player in establishing a data base?

The general feeling is that if we don't have a data base and know what is going on back and forth—we don't have that now, and if we don't have it with NAFTA, how will we know whether or not everybody is holding up their end of the agreement?

Mr. BANKS. We do have a data base today.

Mr. LEWIS. We have asked this question of USDA and other organizations and they say, Mr. Kantor isn't aware of this thing.

Mr. BANKS. We have a system called the automated commercial system. For 94 percent nationwide of all commercial imports that come into the United States, we receive information electronically. That information is automatically transferred to the Census Department because they are responsible for tabulating and compiling trade statistics of the United States. That raw information comes from us in this process.

We run every one of those shipments that crosses that border through a computer system mainly for targeting purposes. We decide is there a commercial reason to examine this shipment or is there a narcotics reason to examine this shipment. We run every one of those shipments through one of our data bases.

Mr. LEWIS. Does the Trade Ambassador know that you have this?

Mr. BANKS. I am not sure, sir.

Mr. LEWIS. That is a surprise to me, because I questioned him on this. If you are doing it and he doesn't know it, how can you negotiate an agreement when something is needed and you are not talking back and forth?

Mr. BANKS. We did use that data in the negotiation process. I personally used some of the automobile data in the automobile negotiations. We have not only automated that system for the Cus-

toms Service, but likewise for FDA, that impacts 25 percent of the imports that come into the country.

We are also developing the automated link so that FDA can operate electronically. We are trying to take it in terms of trade analysis, decide who we need to visit, decide where we need to focus our resources. That is where we need to take the data base from simple raw data into an analytical system for targeting.

Mr. LEWIS. Maybe we are talking two data bases. I am talking a data base with ability to track sensitive crops, agricultural workforce, trade levels, and environmental conditions.

Mr. BANKS. We collect Customs data, trade statistics data on import surges, and on the snapback provisions. We provide that on a weekly basis to the Department of Agriculture. I would admit we don't have environmental information—

Mr. LEWIS. But you do have some of the pieces of the data base?

Mr. BANKS. We can tell you who is the importer, who is the consignee, who is the broker, what the commodity is, and what country it came from. That is the initial information to make a decision as to whether or not we are going to release it or examine the goods. Ten days later we follow with the rest of the information, including statistical trade data.

They tell us the value of the shipments involved. They can give us a whole range of other issues. That is required when these goods cross the border. We have a couple of areas on the southwest border and the northern border where it is streamlined. We already preapprove low-risk repetitive-type shipments. When the goods come in, they have documents and a bar code that we use to simplify the technology.

We don't get always the same level of data that we get on other shipments, but 10 days later we get the detailed trade information.

Mr. LEWIS. Seems to me the basis for what we have been requesting you have available with probably minor program changes.

Mr. BANKS. Nothing is minor in this automation system. Depends on what data you want. Yes, sir. Those data elements, I can give you a book that lists exactly what data elements we have in our computer.

Mr. LEWIS. Would you do that? I would like to sit down with Mr. Kantor and explain to him that you have something that is working to do what a lot of people throughout the agricultural industry are concerned about.

The CHAIRMAN. The gentleman has one more question and then the gentleman from Missouri.

Mr. BANKS. I will give you what we have, sir.

Mr. LEWIS. Please supply one for the committee, too. Other members would be interested in this.

[The information follows:]

1. To understand what information Customs has in its database on perishable commodities, one must distinguish between the information collected at entry and that collected at the time of entry summary. They are:

#### SELECTED IMPORT DATA ELEMENTS

##### Entry/Line Release

District/Port of Entry  
 Filer Code (Broker ID)  
 Entry Number  
 Importer of Record Number  
 Mode of Transportation  
 Estimated Date of Arrival  
 Ultimate Consignee Number  
 Country of Origin  
 Tariff Number  
 Manufacturer ID  
 Bond Type  
 Entry Type  
 District/Port of Unlading\*  
 Location of Goods\*  
 Voyage/Flight/Trip Manifest Number\*  
 Total Entry Value\*  
 Master Bill Number\*  
 Quantity\*

##### Entry Summary

All data collected at entry  
 Bond Number  
 Country of Export  
 Date of Export  
 Import Date  
 Value of Charges  
 Entered Value of Goods  
 Collection Breakdown (Duties, Fees,  
 etc.)  
 Whether a Related-Party Transaction  
 Declaration of Importer of Record  
 Signature of Declarant

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 \*For line release, this information is not collected until the filing of the entry summary.

7 Customs collects information on the entered value of imported agricultural products. The entered value is generally the transaction value (the price paid by the importer to the exporter for the goods). Perishable commodities along the northern and southern border, however, are frequently consigned instead of sold. In that case they are appraised according to the transaction value of similar or identical merchandise or based on the deduction <sup>ive</sup> value, which is basically the resale price in the U.S., with deductions for certain items.

The entry data filers transmit to Customs do not include the value for individual line items. That information is not obtained until ten days later when the entry summary data are transmitted. To reduce this ten-day lag for purpose of enforcing the snap-back provision of the CFTA, Customs requested that filers voluntarily transmit entry summary data within three days. Customs extracts data for purposes of the snap-back as soon as the entry summary is transmitted but does not accept the entry summary for Customs purposes until the tenth day. Brokers complain about this practice, however, alleging that it disrupts their ability to control workload and occasionally forces them to pay overtime to ensure that entry summaries are filed within three days.

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 \*For line release, this information is not collected until the filing of the entry summary.

Mr. LEWIS. Could we come back to transshipment? Mr. English asked you several questions about that and you alluded to it. How strong are you today—and this is a concern of most people that are involved in agriculture—how are we going to protect against transshipment within Mexico so that the current agreements that have already been made can be fulfilled if NAFTA passes?

Mr. BANKS. I tried to explain the procedures that we were going to use to prevent transshipments. The only way you can find out if something is being transshipped is to go to the direct source, not the original source of the goods. If it were Argentinean beef, we don't need to go to Argentina, but to the Mexican exporter. We need to look at how does the process work and where do they source their products.

It is based on that review that we think we can prevent transshipment. Is it going to work 100 percent of the time? No. We are completely reformulating the way we have structured our business so we can take the people we have and turn them from the activities they are currently doing to focus on enforcing the rules of origin, which prevents transshipment. That is the direction we are going.

You have to get a declaration so that you can ensure that you can go after them on penalty action first and then you have to monitor the levels that they are bringing into the country. You have to pick your targets and audit them and review their processes. We are doing it today with textiles and it is a big job. It is not easy.

Mr. LEWIS. That is a good point. What percent of illegal merchandise comes in today that you are aware of—estimated?

Mr. BANKS. That is a real tough question. I don't know that. When GAO did a review of us, they came back and said that we had about a 96 percent voluntary compliance rate.

Mr. LEWIS. I have taken enough time.

Logistically how difficult would it be for Customs to set up a safeguard mechanism based on price? Could you do that at all?

Mr. BANKS. It is not easy if you want it instantaneous; like on the Canadian snapback, people want the information within hours. We don't get that valued information at the very beginning of the process so we can't do that very easily. We would have to radically change the way imports come in.

We could go to live entry, but that throws us into a paper process. If you are after the data at 3 o'clock today when it is happening, that would be difficult for us to deliver.

Mr. LEWIS. In other words, you are not at a position where you can stop it at the dock, basically?

Mr. BANKS. On import surges, no. As I mentioned, on our automated system we provide that data to USDA once a week. It is hard to do it on an hour-by-hour basis, I know that.

Mr. LEWIS. Thank you. I may have other questions that I will ask you to reply in writing.

The CHAIRMAN. The gentleman may submit questions through the committee.

Mr. Volkmer.

Mr. VOLKMER. I doubt if you are the person to answer the questions I had with regard to sanitary and phytosanitary provisions within the NAFTA. You are not equipped to do that, are you?

Mr. BANKS. I am not. We are really a screening mechanism at the border. If we see any issue that concerns another agency, we call them.

Mr. VOLKMER. Do you have any idea what those provisions are within NAFTA relating to conditions of food and sanitary and phytosanitary conditions in Mexico and inspection systems in Mexico and the standards and all?

Mr. BANKS. No, sir. I am sorry. I am not equipped to answer that.

Mr. VOLKMER. So your officials at the border wouldn't have an idea either?

Mr. BANKS. No. We are setting up a mechanism to provide information to FDA electronically, but we represent 60 agencies at the border. We try to do as much screening for them as possible so they get the information they need.

Mr. VOLKMER. I wouldn't blame you for the problems within NAFTA, because under NAFTA, Mexico is able to set up its own sanitary and phytosanitary standards and their own inspection system, and if it amounts to nothing, that is OK. According to NAFTA, they don't have to do much as long as it is their standard.

The other thing I am concerned about, talking to the gentleman from Oklahoma is, it appears to me that you or the officials at the border look upon the people in Mexico as 100 percent honest people. There isn't anybody down there that is greedy or doing anything illegal and they are not going to do anything illegal under NAFTA. They are going to do everything above board like NAFTA says they are supposed to do?

Mr. BANKS. I didn't say that.

Mr. VOLKMER. What is your view of Mexico and what you are seeing over there?

Mr. BANKS. If you want to even see the beginning of the problem, the Mexican Customs Service, our counterparts there, fired all the customs inspectors a year-and-a-half ago and replaced them with what they call fiscal police in order to try to prevent the corruption issue. In addition to that, they have completely changed their system. One of the key elements in the design of almost all their systems is to try to prevent corruption, to try to prevent the idea of crime.

Does it work? No. We have problems.

The CHAIRMAN. Would the gentleman yield? I want to clarify that. What happened in Mexico had no relation to what comes out of Mexico. The problem was what unscrupulous persons from here were smuggling into Mexico and infrastructure corruption. So all of that, which Mr. Banks has mentioned, that they changed all of the personnel and so on, was in relation to problems the United States was causing in Mexico. It wasn't what was coming out of Mexico. It was what was going into Mexico contrary to their laws and to their customs and tariffs, et cetera.

That should be made clear. That is what this President of Mexico is doing. He is doing it for the internal reasons because the problem was caused not necessarily by United States citizens, but the

problem was what was going into Mexico illegally. All of the points that Mr. Smith raised—how can you patrol 2,000 miles and all that—I wanted to clarify that. That action was in relation to goods going into Mexico, not out of Mexico.

Mr. BANKS. They had big problems. One of the biggest differences in recent years is that they have admitted to this issue.

Mr. VOLKMER. They have admitted there was corruption in Mexico. Officials could be corrupted in Mexico very easily.

Mr. BANKS. In open meetings we have had with our counterparts, that was one of the big issues they are trying to deal with.

Mr. VOLKMER. There are people outside of Mexico, people in this country that because of greed and the desire to make bucks will do things illegally, whether it is in Mexico or the United States or anyplace else.

Mr. BANKS. That is correct.

Mr. VOLKMER. That gets me back to the certificates of origin and those standards and I don't think that—put it this way—I am not satisfied personally that I have seen enough change take place in Mexico that it couldn't be easily circumvented and that you could get certificates, documents fraudulently, and used. You at the border aren't going to be able to tell whether those documents are fraudulent or not, no way, just by looking at the paperwork. Is that right?

Mr. BANKS. No, I don't totally agree. I don't say we will get it all the time.

Mr. VOLKMER. If it is coming and it shows an origin that is a legitimate origin, say the fruits and vegetables or say that it is frozen meat in boxes, and it says that it came from a processing plant that does exist in say Guadalajara or anyplace else, and this frozen meat came from there and all the documents, the boxes, labels, show that it came from there, how are you going to tell the difference? You can't open the boxes and look at the meat.

Mr. BANKS. There is a reason for paperwork even if it doesn't do the whole job. The reason for the paperwork is to get their signature so if there is something wrong you can take action. The core is the analysis that we do, the targeting that we do, and we look for importers.

We are trying to set up baselines, what are the products they import, the volumes, the unit values; that is what we are trying to set up throughout the southwest border. It is to have these business lines in place. The purpose is to look for changes and find out if a company in Guadalajara all of a sudden is importing more meat. That is when we want to go down and do a verification.

In the negotiations, the philosophy was trust but verify. We want to be able to have the verification process. We fought to get access to those factories, access to those exporters and their records.

Mr. VOLKMER. You are going to have a centralized computer system then?

Mr. BANKS. Yes, we are going to have a centralized computer system, but we are decentralizing this for the baselines. We have personal computers on line, more going on line, and in every commodity specialist team. We have a team that handles agricultural products, one that handles electronics. They are maintaining baseline numbers in terms of what has been the pattern of imports. That



is what we are looking for, to see where the shifts occur, because that is who we want to talk to.

Can people beat us? Sure.

Mr. VOLKMER. So now put it this way—XYZ has in the past year sent  $x$  amount of pounds of meat from the United States in to various importers, into the United States by various importers. All of a sudden here goes an extra truckload through Tijuana, through San Diego.

Next day here is one through El Paso and the next day here is one through Brownsville. How are you going to know all those extra truck loads came through?

Mr. BANKS. As far as the actual release itself we know the day it happens; that is in the system. That is on the bar codes. What you need in order for this baseline information to operate is typically 10 days later when we get the more detailed information, that is when we will see the surges or if they change prices or sourcing patterns.

If a U.S. importer all of a sudden is sourcing from a different company, the computer system tells you that at time of cargo release when the goods cross the border.

Mr. VOLKMER. Even though you are not going to have additional personnel at the border, you will have additional personnel at the computers monitoring the computers?

Mr. BANKS. We are trying to change the way we do business. We have a piece of legislation in Ways and Means. It is called the Customs Modernization and Informed Compliance Act. It is trying to throw out the requirement that a master of a vessel coming into the country has to report how many cannon and shot they have on board their vessel. That is outdated.

The laws say you have to get an invoice for every shipment that crosses the border. We don't need an invoice every time it crosses the border. We have paperwork mounted up on the import specialist's desk. We still get the information electronically. We don't want that paper. We want the law to change so we don't have to take the paper.

We are trying to free people up to do compliance reviews at the importer premises. I can't tell you how much money and time we are spending—computer technology is one of the ways we are going to address it. It is a key way to address it. The training is designed so people know how to manipulate the system to see who is changing their trade patterns, because that is who you want to focus on.

Is it a panacea? No. We think that it is one of the major tools we will have for NAFTA and every other trade agreement we are trying to enforce.

The CHAIRMAN. Mr. Kingston.

Mr. KINGSTON. Mr. Banks, I hope you can answer this question. I know you are broken down in divisions. But there is a portion of the agreement that says that neither country can relax standards of health, safety, and environment.

How would that fit into something say specifically like the Delaney clause where now it is zero tolerance, but Congress recognizes that there should be a little more leeway in it, yet we move from allowing some level of tolerance of carcinogen residue in vege-

tables, that is relaxing a standard. There is a bill pending right now.

How would that fit into NAFTA? If that bill is passed under NAFTA, would that not be a violation?

Mr. BANKS. Sir, I am not the guy. The Department of Agriculture can answer that question. There is a person here that would be happy to answer that for the record.

Mr. KINGSTON. That would be fine with me if the chairman agrees.

Mr. BANKS. We can do it for the record. That is the way the Agriculture Department would like to do it, submit it in writing.

[The information follows:]

#### HEALTH AND SAFETY STANDARDS UNDER NAFTA

The North American Free-Trade Agreement (NAFTA) does protect the right of each nation to protect human, animal and plant life and health. It does not prohibit a country's tightening or loosening of those standards. With regard to the Delaney clause, NAFTA allows it to stand as is and proposed changes in the risk standard also would be permitted, although none are foreseen as a "relaxation" of the standard.

Mr. KINGSTON. Do you need me to submit it in writing to you?

Mr. BANKS. No.

Mr. KINGSTON. Contract labor, there is a bill pending on contract labor that would require farmers to do certain things for contract labor. How would this change contract labor, and does Mexico have a contract labor situation?

Mr. BANKS. I am a border cop. We have to get the Department of Labor to answer that question. I would ask them to do that.

[The information follows:]

#### "CONTRACT LABOR" IN MEXICO

The laws covering agricultural workers in Mexico and the United States are not similar. Mexican agricultural workers are covered by labor laws and that most protections do apply. Agricultural workers are entitled to some special protections, such as adequate, hygienic housing.

Mr. KINGSTON. Let me go back to the first question a second. Aside from the Delaney clause, for example, how would it affect OSHA and work comp laws as well? On peanuts, I have a great peanut production area in my State. Secretary Espy said yesterday something to the effect that we are looking at a numbers game and I think he alluded to the fact not everybody is going to be happy.

I can't quote him, but I think he was saying that there are going to be some producers of some commodities who aren't tickled to death. The peanut farmers particularly are not tickled to death at this point. Can you comment on that?

Mr. BANKS. I don't know about being tickled to death or not. I am not an economist who can tell you who is going to get hurt in the process. As far as a rule of origin from NAFTA for Mexico, I understand that 100 percent of the peanuts have to be grown in Mexico and for peanut products.

How do you know they were grown in Mexico, that they weren't imported from someplace else? That gets us into the conversation I had with Mr. English, on how we would do that. We would do audits and compliance reviews and use their penalties and authorities to nail the people that violate it.

Mr. KINGSTON. Do you know what kind of quota they have under NAFTA for peanuts and is that a 10-year period or is it indexed?

Mr. BANKS. Fifteen years.

The CHAIRMAN. They don't grow any peanuts in Mexico. The bulk of peanut butter is imported from us.

Mr. ENGLISH. If the gentleman would yield, isn't it true though, Mr. Banks, today that there are peanut products coming into this country from Canada?

Mr. BANKS. I am informed of that, yes.

Mr. ENGLISH. There are no peanuts grown in Canada either.

Mr. BANKS. That is not the same rule of origin for Canada. For Mexico it has to be 100 percent; but not so for Canada.

Mr. ENGLISH. So it doesn't matter if peanuts come from China through Canada into the United States; is that right?

Mr. BANKS. I would say what we do is we don't make those rules. We try to enforce those rules. I can look up and find what those rules are.

Mr. ENGLISH. I appreciate that.

[The information follows:]

## RULES OF ORIGIN FOR PEANUTS

To qualify for NAFTA treatment, peanuts from Mexico must be "wholly originating" there. Peanuts contained in peanut products (e.g. peanut butter) also must be "wholly originating" in Mexico. "Wholly originating" means that the peanuts must be grown in Mexico.

For trade in peanuts with Canada, roasting or blanching of non-NAFTA peanuts does not confer origin. For peanut products, NAFTA origin is conferred even if the product is made with non-NAFTA peanuts.

Under NAFTA, a limited quantity (3377 metric tons in 1994) of shelled and in-shell peanuts grown in Mexico may be entered duty-free. Amounts in excess of this quantity are subject to higher tariff rates (123, 1% ad valorem for shelled peanuts; 186.1% for in-shell peanuts). The quota will be increased each year while the high-rate tariff is gradually phased out (over 15 years).

The CHAIRMAN. We will have to agree to the fact that there is a problem with peanuts coming from Canada and sugar and a lot of other things.

Mr. BANKS. That may be a trade policy issue, not an enforcement issue. There may be an enforcement issue also.

The CHAIRMAN. There is a problem. We exported to Mexico in 1991, 10 million-plus metric tons of peanuts and products, and we imported from Mexico 29 metric tons.

Mr. KINGSTON. Mr. Chairman, do you know where those came from that we imported?

The CHAIRMAN. I don't know where they came from. There is little production in Mexico, practically zero, but there is very little production.

Mr. KINGSTON. My last question would be on my previous question about the Delaney clause, et cetera, who would I actually talk to. Is there somebody we could have an ongoing dialog? Every time you ask a question, two more pop up. Could you give me a name of somebody?

Mr. BANKS. Cathy Carnevale at FDA.

The CHAIRMAN. I don't think the gentleman was here when I mentioned that we were going to have a hearing to invite Customs, Food and Drug, APHIS, the Food Safety Inspection Service, and now we have added Labor to the list, in order to acquaint members with the generic issue so that we might be knowledgeable enough to question in specifics. We hope to do that as soon as possible.

Mr. KINGSTON. Thank you, Mr. Chairman.

Thank you, Mr. Banks.

Mr. BANKS. Yes, sir.

The CHAIRMAN. Mr. Minge.

Mr. MINGE. Mr. Banks, are you familiar with the problem of controlling surges? Is that something within your field of expertise or experience?

Mr. BANKS. We are involved in that, yes, sir.

Mr. MINGE. Could you explain to me briefly with respect to surges, how the agreement would work if, for example, we experience a surge in imports into this country of one of the agricultural products? Let's just take meat products.

Mr. BANKS. The typical procedure—and I am not an expert on NAFTA rules on surges—but the typical procedure on most of those surges is when they hit a certain level, that we impose a tariff rate quota, that is only for seven products.

Mr. MINGE. It would be fine with me if one of the other members of your staff would like to answer the question directly, if that would simplify the discussion.

Mr. BANKS. This is Susan Reid from the Department of Agriculture. I apologize.

Mr. MINGE. Mr. Chairman, I don't know if this is within the scope of what you intended to include. We are discussing surges.

The CHAIRMAN. Well, that is not basically within their responsibility. I made a major effort with the negotiators that we might have at least a snapback provision like we have with Canada. That was not agreed to, it was not a part of the agreement. So basically, we now will be looking at volume. Customs is not involved in the

volume part. We still have the basic law on the surges, but what we have to rely on is the antidumping law.

I had hoped that we might have the opportunity to have a snap-back when it got to a certain amount, both price and volume, but we weren't able.

Mr. MINGE. I would like to get an answer if we have someone here that is qualified to answer, get an answer on the record and that is all.

The CHAIRMAN. We have Mr. Condon from USTR. He might be able to address that question.

Mr. CONDON. I will try. There are several different types of safeguards and it really depends upon the product. You mentioned meat. First, I would say meat is probably an unlikely candidate. Most of the meat is going to go south. Our present duty on meat is about 1½ percent a very low duty.

We have no duty on cattle. Mexico currently has a 15 percent duty on cattle and duties of 20 to 25 percent on beef. When NAFTA goes into effect, all duties on cattle and beef between the United States and Mexico will disappear. Mexico is a net deficit producer of meat, so most of the meat will go south.

Using meat as an example, we have a special agricultural safeguard that applies to seven tariff line items, mostly fruits and vegetables. So that doesn't cover meat. Meat would be subject to what we call a bilateral safeguard which is available under chapter 8 of the agreement.

The bilateral safeguards under certain conditions, there will be an investigation by the International Trade Commission to determine whether the domestic industry is being injured and whether certain requirements are met. If they are, you would go back to the current duty or the 1½ percent; say, for meat the 1½ percent duty would be restored for 3 years, up to 3 years.

Mr. MINGE. So that if a certain volume of imports into this country of that particular product occurred, then the duty would be re-established?

Mr. CONDON. Yes.

Mr. MINGE. With respect to those products for which there is some type of a quota, how would that be handled?

Mr. CONDON. For these seven fruits and vegetables, I assume you are referring to this special agricultural safeguard?

Mr. MINGE. There are quotas, for example, for sugar, too.

Mr. CONDON. That is a slightly different situation. The provisions on sugar are absolutely unique in the agreement.

Mr. MINGE. So there is no one way that surges are handled? It is different for different product areas?

Mr. CONDON. Yes.

Mr. MINGE. Take it for sugar. Maybe that would be appropriate to my area and apparently fit within the problem area that you are addressing.

Mr. CONDON. The provisions of sugar are linked into Mexico's ability to become a net surplus producer of sugar. In the first 6 years, Mexico continues its quota for 7,258 short tons of sugar. The first 6 years they preserve that quota. If they become a net surplus producer during the first 6 years, their quota can go up to their net surplus production not to exceed 25,000 tons.

Beginning in year 7, the quota goes up to 150,000 short tons or not to exceed 150,000 short tons, but again it has to have—they have to be a net surplus producer. It is net surplus production not to exceed 150,000 short tons. That quantity grows over the 15-year transition period, but it is all linked into their ability to become a net surplus producer of sugar.

Mr. MINGE. Is the surge concept applicable to sugar at all?

Mr. CONDON. It would still be subject to these, the bilateral safeguard and the global safeguard. You could use the bilateral safeguard or the global safeguard, which would take you back to the MFN duty.

Mr. MINGE. That would be if it reached a certain rate of import into this country at a time during the year?

Mr. CONDON. There would have to be some injury to the domestic industry and you could factor in plant closings, job losses, and the ITC would have to define this injury to the domestic industry.

Mr. SMITH of Michigan. I have a follow-up on the sugar question.

Mr. MINGE. I would yield to you at this point.

The CHAIRMAN. Will the gentleman yield to me?

It may not be useful to use sugar with respect to the surge issue because it is not a commodity susceptible to surges like tomatoes or eggplant. The surges apply more to the fresh fruit and vegetables, which was our interest. Sugar may not be a good commodity to examine for surges.

Besides, our sugar law provides for quotas to all of the other countries that ship to us and how much and so on. So under our law with the other countries there cannot be any surges because we control the amount that comes in. So you might switch to another commodity, maybe tomatoes.

Mr. MINGE. I think he answered it more in the abstract, and I will accept that explanation.

The CHAIRMAN. Mr. Smith.

Mr. SMITH of Michigan. A follow-up on sugar, since Michigan has 111,000 acres of sugar beets. Is there a determination, who will decide when? Since there is a limitation on the amount of sugar that Mexico can export into this country under the NAFTA terms based on whether they are a net exporter producer, the question of some other sweetener products is going to come into play such as corn syrup.

So one big question is will corn syrup be considered a sweetener in terms of allowing Mexico to be a net importer of sugar; in other words, can Mexico import cheap corn syrup to use as their sweetener and then export their maximum as they move into the sixth year?

Mr. CONDON. That was the first question asked yesterday when we began the hearing, and Ambassador Kantor answered that. The agreement as written now doesn't provide for HFCS, high fructose corn syrup. We recognize that is a serious problem. We have heard from many members and we are exploring ways to deal with that situation.

Mr. SMITH of Michigan. What does that mean, you are exploring ways to deal with it?

Mr. CONDON. Talking to the industry, talking to the Mexicans.

Mr. SMITH of Michigan. Because it totally negates the efforts of the contract on the net exporter provision which was put in here as a protection against this import sugar and to expand their current quotas. Is that likely, unlikely—does this come from Ambassador Kantor's office?

The CHAIRMAN. Would the gentleman yield?

Mr. SMITH of Michigan. Yes, and then I want to ask Mr. Banks, in terms of his keeping track of the different products that are sugar or near sugar or other products that could be exported—

The CHAIRMAN. We had Ambassador Kantor here yesterday and he addressed those issues to the extent he could. I know they are still negotiating whether to include in the definition of sweeteners, high fructose corn syrup. If we might go solely to Customs, which was the purpose of the meeting, I would appreciate it.

Mr. SMITH of Michigan. For example, if you were looking at keeping track of the different volumes, different commodities and with the uniqueness of some of these agreements such as sugar, somebody tells you, Mr. Banks, that, yes, these are the sweetener products that are being considered sweeteners, and then somehow you are going to be responsible for keeping track of the volumes—how does that work?

Mr. BANKS. We keep track of the harmonized tariff system numbers. If something is broken down that basically says under the tariff schedule of the United States, if this product is provided for by a specific number we can tell you that number. That is how we keep track of our trade statistics. We can tell you under those numbers what is happening with those products.

I have a trade profile book that breaks it down. It tells you every district in the country and what are the main products they receive and where at least in major terms do they receive them from. We can provide that to you. I don't know if it provides always the level of detail that you may want when you get into some of the fine points.

[The information follows:]





DEPARTMENT OF THE TREASURY  
U.S. CUSTOMS SERVICE  
WASHINGTON, DC

# ***U.S. TRADE PROFILES***



*Graphical and Tabular Representations  
of Selected Trade Data  
for Calendar Year 1992*

*Office of Commercial Operations*  
*Trade Analysis Staff*

UNITED STATES GOVERNMENT  
**Memorandum**

DEPARTMENT OF THE TREASURY  
UNITED STATES CUSTOMS SERVICE



DATE: APRIL 22, 1993

FILE: MAN-1 CO:TAS MZ

TO: See Distribution

FROM: Acting Assistant Commissioner  
Office of Commercial Operations

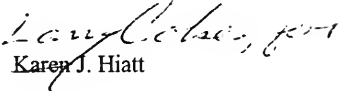
SUBJECT: Trade Profiles

Attached are the Calendar Year 1992 Trade Profiles which provide a graphic representation of US. Trade for 1992. Produced by the Trade Analysis Staff, Office of Commercial Operations, the Trade Profiles can be used to identify trade trends and patterns for countries and commodities in Customs regions and districts. The new profiles contain information regarding the top imported commodities and the top U.S. trading partners by district.

The Trade Profiles are intended to help you plan activities which are consistent with objectives of the Trade Enforcement Program. Managers can use the profiles to determine patterns of growth so that resources can be appropriately allocated, and to direct changes in examination and enforcement projects. The profiles can also be used by managers as a resource for discussions and presentations to individuals and groups.

The principal product summaries in the Trade Profiles can be used by OAS, AIU, and NIS to select commodities for examination and enforcement projects. National and Field Import Specialists can use the profiles to determine which districts have imports of similar commodities and to answer queries from the public regarding local and national trade activities. The Trade Profiles can also help determine shifts of national, regional, and district imports.

Your comments and suggestions concerning this information would be welcome. Please direct them to the attention of Mark S. Ziner, United States Customs Service, Office of Commercial Operations, Trade Analysis Staff, Room 1109, 1301 Constitution Ave, Washington D.C., 20229.

  
Karen J. Hiatt

Attachment

Distribution: Assistant Commissioners  
Regional Commissioners  
Assistant Regional Commissioners, Operations  
Assistant Regional Commissioners, Enforcement  
District / Area Directors  
Assistant District/Area Directors,  
Commercial Operations  
Office Directors, Commercial Operations  
Office Directors , Inspection and Control  
Customs Attaches and Senior Customs Representatives  
Special Agents in Charge  
Director Commercial Operations Training, Glynco  
NIS Staff (15)  
OAS Staff, New York

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(The complete report is held in the committee files.)

Mr. SMITH of Michigan. Maybe you answered part of this in responding to Mr. English, but specifically in terms of Customs' workloads, the number of people, what has been your experience with Canada since the free-trade agreement with Canada?

Mr. BANKS. We actually have not seen a requirement for additional resources. In fact, we haven't put any on the northern border. This is for import specialists, trade experts. We have put more auditors there because especially in the Canadian Free-Trade Agreement there are value content provisions.

When you manufacture something, so much of the value has to be from North America. The only way you can determine that is with auditors. We put more auditors up there. Volume of trade—when the Canadian Free-Trade Agreement went in, we didn't see a change. It has been a very gradual process, so I don't think anybody felt it was necessary to add additional resources.

We were dealing with products coming across and we did it in a slightly different way.

Mr. SMITH of Michigan. As far as Mexico, have you projected your increased workloads if and when NAFTA is implemented?

Mr. BANKS. We have been relying on projections from other Departments. ITC and others have done projections. We have been living with a pretty significant increase in workloads over the last 3 or 4 years in any event. It is really booming down there.

When Congressman English asked about resources, I mentioned that in the past few years we have put more resources down there in response to the growth.

Mr. SMITH of Michigan. Somebody sometime is going to have to say if NAFTA passes versus if NAFTA doesn't pass, you are suggesting that it is not going to make much difference in terms of volume of trade and your workload?

Mr. BANKS. I think we will see the trade with Mexico continue to grow. I think it will continue to be an issue. Do I anticipate more resources? No, sir. I don't.

Mr. SMITH of Michigan. That is all I have, Mr. Chairman.

The CHAIRMAN. I might inform the gentleman that among the States in 1992, Michigan was the third in exports to Mexico—to the tune of about \$1.4 billion.

Knowing that Mexico had import permits, permisos and limitations; if they shipped \$1.4 billion with all the restrictions Mexico had, my guess is those would triple.

Mr. SMITH of Michigan. A lot went to the maquiladora program.

The CHAIRMAN. A major part of it was beans.

Mr. SMITH of Michigan. Yes.

The CHAIRMAN. Mr. English.

Mr. ENGLISH. A comment I wanted to make earlier.

Mr. Banks, thank you for coming. I appreciate what you had to say. I am not comforted by the lack of new resources. I think there is going to be a tremendous increase in trade and that is going to make your job much more difficult.

I think in order for you to carry out the job and have any chance at all you have to have a substantial increase in resources.

Second, being very familiar with the problems we ran into with regard to interdiction in the war on drugs, this is another interdiction mission for the Customs Service, not an easy mission to carry

out. We ran into some assumptions by some people that I think were grossly oversimplifying what the process is on any kind of an interdiction responsibility. So I am very troubled by the lack of resources.

I was pleased to hear that under the agreement that we will be able to go down and check books and paperwork. I think that is a very important tool that you must have with this kind of mission. I also have the same concerns Mr. Volkmer expressed though with regard to any time you have the possibility of making money, as we have seen in the drug war, it doesn't seem like penalties of law discourage those kinds of folks if they are inclined to move in that direction.

I want to state to you as far as the Customs Service, and I think the chairman agrees, that I will be very supportive of additional resources to carry out the terms of this agreement should in fact it be adopted. So again thank you and it is good to see you again, Mr. Banks.

Mr. BANKS. Could I make one comment?

Congressman English, if we had the opportunity, I would like to sit down with you and show you what we are doing in terms of our trade analysis. A lot of this is business confidential information.

I would like to show you how we slice and dice, who we are dealing with and how we focus on who we are going after, because I've got reports on the top 50 exporters, the top 50 importers. What do they bring in, how do they deal, what are their patterns? We will never solve all the problems. I think the air war didn't get the credit it probably deserved on this thing and I think that we can show you we are trying to do this in a much more systematic way.

We are trying to change the way we do business and address the issues you are talking about. Do we have all the resources that we could use? Probably not. We don't anticipate getting them, so we are designing this with that in mind and to improve on the enforcement side.

I think if I could to even sit down and show you firsthand I think you would walk away more convinced that we can do it.

Mr. ENGLISH. You have the opportunity because I am ready to do it any time you are.

The CHAIRMAN. Thank you for the offer. I would hope that you don't limit it only to Mr. English. We may need to have a closed session because there are areas of surveillance we couldn't get into here. There are practices that we couldn't get into here and maybe we might have a private visit with you.

I wanted it on the record, very briefly, that as far as cattle are concerned there is a National Cattlemen's Association in Mexico. There is a National Cattlemen's Association in the United States. There is the Texas and Southwestern Cattlemen's Association.

Everyone in Mexico knows every rancher, how many head of cattle he has, what breeds he has, who he bought them from, where they bought them from. The Southwest Cattlemen's Association knows and National Cattlemen's Association knows. They visit each other. I think they even have—I know that Texas has—cross-directorships.

I mean the world knows who the ranchers are, how many cattle are on their ranch, where they came from and who they bought them from and the bulk of them were bought from us.

We will be in touch with you for a sit down session with the members of the committee, a private session. Thank you very much. Getting resources for you, we will all try to help.

Mr. BANKS. Thank you, Mr. Chairman.

The CHAIRMAN. The meeting is adjourned.

[Whereupon, at 11:05 a.m., the committee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

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AND TECHNOLOGYSELECT COMMITTEE ON  
NARCOTICS ABUSE AND CONTROL

NORTH ATLANTIC ASSEMBLY (NATO)



Congress of the United States  
House of Representatives  
Washington, D.C. 20515  
September 30, 1993

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Mr. Samuel H. Banks  
Assistant Commissioner for  
Commercial Operations  
U.S. Customs Service  
Department of the Treasury  
1301 Constitution Avenue, NW  
Washington, D.C. 20229

Dear Mr. Banks:

I appreciate your outstanding testimony before the House Agriculture Committee this morning concerning the North American Free Trade Agreement. As you are aware, I and many of my colleagues are extremely concerned about the enforcement of NAFTA. Your insightful and direct testimony was greatly appreciated.

I would like to take this opportunity to follow-up on a number of the issues we discussed this morning.

- 1) I would like clarification regarding the specific data maintained by Customs in its database as it relates to imported perishable commodities.
- 2) From our conversation, I gathered that Customs does in fact collect data on the value of imported commodities. What exact data is collected, where and how is it maintained? Why is there a ten-day delay before release of data on the value of imports?
- 3) What would Customs require in order to establish a mechanism to track import surges based on price for fruits and vegetables including citrus?
- 4) How difficult would it be to establish and maintain a database of Mexican and U.S. agricultural trade, production and commerce. I am specifically referring to a database with the capability to track commodity specific data for import sensitive crops, information on the agricultural workforce, trade levels and environmental conditions in major export-producing regions. I realize you may not be able to comment on the areas of workforce or environmental conditions however your input on the import sensitive commodities would be appreciated.



September 30, 1993  
Page Two

- 5) How will Customs prepared to prevent transshipment of third country products under NAFTA?
- 6) What kind of resources will Customs need to effectively track import surges under NAFTA? What kind of costs will be needed to provide for these resources.

Again, I am deeply concerned about enforcement of NAFTA. The Committee's hearings this week were helpful in gaining a better understanding of how some of our government agencies are planning to address certain situations in the event that NAFTA passes out of Congress.

Thank you for your assistance. I look forward to a prompt reply on this timely issue.

Sincerely,



Tom Lewis  
Member of Congress

**THE COMMISSIONER OF CUSTOMS****WASHINGTON, D.C.**

November 1, 1993

CO:TO:T:T LAC

The Honorable Tom Lewis  
House of Representatives  
Washington, D.C. 20515

Dear Congressman Lewis:

Thank you for giving Customs the opportunity to testify before the House Committee on Agriculture regarding the North American Free Trade Agreement (NAFTA). I am pleased to provide more detailed information on various issues you raised at those hearings, as requested in your letter of September 30, 1993.

A brief explanation of the import process is appropriate before answering your questions. The entry of merchandise into the U.S. is a two-part process consisting of (1) filing the documents necessary to determine whether a shipment may be released from Customs custody; and (2) filing the documents which contain information for duty assessment and statistical purposes, along with duty payment. The first filing is known as "entry" and the second as "entry summary." Entry occurs within five working days of the date of arrival of a shipment at a U.S. port of entry and entry summary occurs within ten working days of the date of entry. A bond is posted at the time of entry to guarantee filing of the entry summary and payment of duty.

The entry process is broken down in this way to expedite release of merchandise; only essential data necessary for deciding whether to physically examine a shipment (cargo selectivity) is collected at the time of entry. More detailed information (that may not be available at the time of entry) is collected ten days later and the payment is processed. Both entry and entry summary data are usually transmitted to Customs via the Automated Commercial System (ACS). A process known as line release, which uses bar code technology, is used along the northern and southern borders, with an entry summary filed ten days later. Fewer data are collected under the line release procedure.

1. To understand what information Customs has in its database on perishable commodities, one must distinguish between the information collected at entry and that collected at the time of entry summary. They are:

<u>Entry/Line Release</u>	<u>Entry Summary</u>
District/Port of Entry	All data collected at entry
Filer Code (Broker ID)	Bond Number
Entry Number	Country of Export
Importer of Record Number	Date of Export
Mode of Transportation	Import Date
Estimated Date of Arrival	Value of Charges
Ultimate Consignee Number	Entered Value of Goods
Country of Origin	Collection Breakdown (Duties, Fees, etc.)
Tariff Number	Whether a Related-Party Transaction
Manufacturer ID	Declaration of Importer of Record
Bond Type	Signature of Declarant
Entry Type	
District/Port of Unlading*	
Location of Goods*	
Voyage/Flight/Trip Manifest Number*	
Total Entry Value*	
Master Bill Number*	
Quantity*	

2. Customs collects information on the entered value of imported agricultural products. The entered value is generally the transaction value (the price paid by the importer to the exporter for the goods). Perishable commodities along the northern and southern border, however, are frequently consigned instead of sold. In that case they are appraised according to the transaction value of similar or identical merchandise or based on the deductive value, which is basically the resale price in the U.S., with deductions for certain items.

The entry data filers transmit to Customs do not include the value for individual line items. That information is not obtained until ten days later when the entry summary data are transmitted. To reduce this ten-day lag for purpose of enforcing the snap-back provision of the CFTA, Customs requested that filers voluntarily transmit entry summary data within three days. Customs extracts data for purposes of the snap-back as soon as the entry summary is transmitted but does not accept the entry summary for Customs purposes until the tenth day. Brokers complain about this practice, however, alleging that it disrupts their ability to control workload and occasionally forces them to pay overtime to ensure that entry summaries are filed within three days.

-----  
\*For line release, this information is not collected until the filing of the entry summary.

However, this procedure allows Customs to give the Department of Agriculture price information that is generally less than three days old. We have achieved an approximate 50 percent compliance rate under this new procedure. The only way to obtain price information on a daily basis is to require that the entry and entry summary be filed at the same time, a procedure known as a "live" entry. Customs is reluctant to move to live entry because it would require the paper filing of all documentation. A similar procedure could be implemented on the southern border although it is likely to bring the same protests from filers as it did on the northern border.

The only alternative way to obtain more up-to-date price information would be to radically alter current import procedures and our existing Automated Commercial System.

3. The data needed to track import surges for fruits and vegetables is currently resident in raw form in the Automated Commercial System. Customs needs to develop trained personnel and standard methods for manipulating these data to detect surges and anomalies. Customs already has personnel who know how to do this--we now must move to train more personnel in these techniques.
4. As the data elements listed above indicate, Customs already has important price and quantity information to contribute to a database on agricultural trade. It is feasible for Customs to convey this information on tape for incorporation into a database. However, Customs does not have access to any information on agricultural workforce nor environmental conditions.
5. Customs will use two major methods for detecting transshipment of third country goods: audits and regular verification visits to both importers in the U.S. and exporters/producers in Mexico and Canada. Verification visits to production sites in Mexico and Canada will ensure that factories really exist and are indeed producing the goods for which benefits are claimed. Audits are necessary to confirm origin for goods subject to regional value content requirements, particularly when the parties take advantage of the provisions on averaging, intermediate materials and accumulation.
6. Customs has fairly detailed information on all importations within its Automated Commercial System. As indicated in number 3 above, these data are in raw form and can be manipulated to detect import surges and anomalies. Customs is currently training its import specialist staff to focus and improve enforcement by analyzing historical baselines and recognizing changes to them. This method for detecting fraud and transshipment is currently being used on the northern border for imports under the U.S.-Canada Free Trade Agreement and can be adapted to the southern border. Customs does not foresee the need for any additional resources to track import surges.

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I trust this information will assist the members of the Committee on Agriculture in their evaluation of the NAFTA. Please do not hesitate to contact Customs if you require additional information on these or related matters.

Sincerely,

A handwritten signature in cursive script that reads "George J. Weise". The signature is written in dark ink and is positioned above the printed name and title.

George J. Weise  
Commissioner



# NORTH AMERICAN FREE-TRADE AGREEMENT

THURSDAY, OCTOBER 14, 1993

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The committee met, pursuant to notice, at 9:35 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives English, Glickman, Stenholm, Volkmer, Sarpalius, Long, Condit, Peterson, Dooley, Hilliard, Pomeroy, Holden, Thurman, Bishop, Farr, Lambert, Roberts, Gunderson, Lewis, Smith of Oregon, Combest, Barrett, Nussle, Ewing, Kingston, Goodlatte, Dickey, and Smith of Michigan.

Staff present: John E. Hogan, minority counsel; Dale Moore, minority legislative coordinator; Glenda L. Temple, clerk; Anita R. Brown, James A. Davis, and Xavier Equihua.

## OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. The committee will be in order.

We will start our session. Unfortunately, we found out after we had set our timeframe that the whip organization has scheduled a meeting for 9 o'clock this morning, and apparently they may be running a little long. Also, one of our guests has a timeframe problem that he must leave by, hopefully, 10 o'clock.

We meet today in a continuation of our desire to discuss, to the fullest extent possible, the North American Free-Trade Agreement, which, of course, is of great interest to this committee and to the Nation. Last week we had the initial hearing where we heard from the Secretary of Agriculture, the United States Trade Representative, and the Administrator of the Environmental Protection Agency. They discussed with us the overall framework of the trade agreement. This hearing today is focused primarily on the treatment of food and plant health and safety inspection, pesticide regulation, and labor issues under the agreement. Today, we will get into the more detailed technical aspects of the proposal.

I might say that I'm finding that there is a mass group of our citizenry that is not adequately informed as to the intricacies of international trade. I was visiting with the representative from Customs and, much to my surprise, found that many of our constituents and some of our Members felt that Customs did everything at the port of entry—that they inspected for pesticide residue, that they inspected for plant and animal health, that Customs was the one that did it all. So we've been clarifying that now so

that we know that Food and Drug plays a part, that USDA/APHIS plays a part, that Department of Transportation plays a part, and all of the other agencies in their sphere of jurisdiction. So today I appreciate very much that we have with us representatives from the U.S. Customs Service, Food and Drug Administration, USDA's Animal and Plant Health Inspection Service, and the Department of Labor.

I would like to announce also that next Tuesday, October 19, the committee will hold a hearing to receive testimony from any interested agricultural organizations who wish to be heard on NAFTA. On Wednesday, October 20, we will hold a public walkthrough, section by section, of the NAFTA agreement within the jurisdictional interest of this committee.

So in anticipation of that, today we have Mr. Doug Ross, Assistant Secretary for Employment and Training, U.S. Department of Labor; Mr. Samuel Banks, Deputy Commissioner, U.S. Customs Service; Mr. Mark Manis, Director, Import Inspection Division, Food Safety and Inspection Service; Mr. Terry Medley, Acting Associate Administrator, Animal and Plant Health Inspection Service; and Mr. Gary Dykstra, Deputy Associate Commissioner for Regulatory Affairs, Food and Drug Administration.

Also, any prepared statements received from the members will be placed at this point in the record.

[The prepared statements of Mr Condit, Mr. Lewis, Mr. Smith of Oregon, Mr. Canady, and Mr. Everett follow:]



**STATEMENT BY CONGRESSMAN GARY A. CONDIT  
HOUSE COMMITTEE ON AGRICULTURE  
HEARING ON THE NORTH AMERICAN FREE TRADE  
AGREEMENT**

**October 14, 1993**

I want to thank the Chairman for holding this hearing. It is important for the Committee to closely examine the impact the North American Free Trade Agreement (NAFTA) will have on our Country. I have made my stance on NAFTA perfectly clear over the last few months and while I cannot support a trade pact that does not protect the workers of this country, I am willing to work with the Chairman and other members to disseminate the vast amount of information regarding this pact.

People on both sides of the *North American Free Trade Agreement* (NAFTA) agree that there will be costs to the economy of the United

States. There is disagreement over the extent of potential damage, but even supporters admit that jobs will be lost and incomes reduced.

Where I come from, my district cannot afford ANY job losses. Not for 15 years, 10 years, 5 years or even one year while we wait for the Mexican economy to "catch-up" with our economy and increase their standard of living.

I support free trade but first we have to have fair trade. This isn't free or fair trade, this is managed trade or better mismanaged trade. We have huge labor cost disparities. No one can credibly argue that a \$16.00 per hour wage versus \$2.00 per day wage disparity will not act as a invitation to relocate south of the border.

Part of fixing NAFTA with side agreements would require Mexico and the U.S. to provide for new, tougher and enforceable labor and environmental standards, agreements on internal financial regulations,

and protection against sudden destructive import surges. The side agreements would also have to assure some permanent funding to pay for the cost of trade adjustment and environmental repair. However, none of these elements are in the side agreements that the U.S. government has proposed to Mexico and Canada.

As you may be aware, I just return from a trip to Mexico with some of my colleagues on the Government Operations committee. During this trip we met with President Salinas, members of his cabinet, farmer groups, and U.S. and Mexican business leaders. I found the trip extremely informative and hope that it will contribute to improved relations and cooperation between the two nations. It is unquestionably important for the U.S. and Mexico to improve and maintain a strong trade relationship. I am not convinced that the NAFTA agreement will accomplish the results advertised. In our meetings with Mexican officials

I asked if this agreement will help stem illegal drug trafficking and illegal immigration. I am also concerned about the treatment of some U.S. agricultural commodities in the NAFTA – this trip gave me the opportunity to meet directly with Mexican government officials to detail these issues.

The North American Free Trade Agreement is a symbol of all that is wrong with our trade accords. For workers, our trade pacts have left them standing still, or falling behind while we continue to export jobs abroad. They see trade agreements that are more interested in quick profits rather than a long term investment-led program. For businesses, we have seen the enormous need to compete in a global market but have been shut out because they face protectionist barriers all across the globe while we continue to run a trade deficit year after year and open our markets to the rest of the world. In case after case, issue after issue, industry after industry, NAFTA is bad news for Americans.

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**Statement of the Honorable Tom Lewis of Florida**  
**House Agriculture Committee**  
**October 14, 1993**

Mr. Chairman, I would like to thank you for your leadership in holding this series of hearing on issues relating to agriculture and the North American Free Trade Agreement (NAFTA). As you know, Florida agriculture stands to be one of the biggest losers under the NAFTA with most estimates placing job losses at about 60,000, and losses in farm revenue at about \$300 million.

Besides these potential losses to Florida's second largest industry, Floridians are also concerned about the safety of foods coming from Mexico. Concerns have been raised that many chemicals that have been banned from use in the United States are still applied to foods in Mexico. The Administration has stated that nothing under the NAFTA will prevent the United States from establishing their own pesticide tolerances in food and prohibiting the importation of foods that contain residues of chemicals banned from use in the United States. I look forward to hearing how Customs, The Food and Drug Administration (FDA), the Environmental Protection Agency (EPA), and the Animal Plant Health Inspection Service (APHIS), plan to ensure that the safety of food entering the U.S. from Mexico.

Furthermore, it has come to my attention that APHIS does not have any plans for border staff increases should the NAFTA pass, stating that they do not that there will be increases of produce imports from Mexico. I find this extremely hard to believe as the NAFTA will present an opportunity for Mexico to dramatically increase their exports of Winter vegetables to the United States.

Finally, I realize that the NAFTA does offer U.S. Customs another weapon for the prevention of transshipment of products through Mexico, the Certificate of Origin. Bearing in mind that there have been serious concerns raised by peanut farmers regarding the possibility of the transshipment of peanuts through Canada, I am deeply concerned about this occurring through Mexico with a variety of commodities. Transshipment, Mr. Chairman, is an extremely important issue to producers in Florida, especially citrus and sugar producers, and I look forward to hearing from the U.S. Customs on this extremely important issue.

Thank you again, Mr. Chairman, for holding these series of hearings.

STATEMENT OF ROBERT F. (BOB) SMITH  
HOUSE COMMITTEE ON AGRICULTURE  
HEARING ON NAFTA  
OCTOBER 14, 1993

Mr. Chairman, I want to thank you for having this hearing so that we'll have another opportunity to dispell some of the myths about NAFTA exporting jobs to Mexico and threatening our food supply. The issues of the quality and safety of Mexican agricultural products and "the giant sucking sound" of labor need to be put to bed, and I look forward to the Administration's testimony.

As a strong supporter of free trade and NAFTA, I am pleased the President and the Administration have finally decided to acknowledge its importance. My state, Oregon, is already reaping the benefits of free trade with Canada and developing Mexican markets. Since 1987, Oregon exports to Canada have increased by 65 percent while total exports to Mexico have multiplied by 452 percent. When you take the agricultural sector by itself, our exports to Mexico have increased by a whopping 1,123 percent.

So the potential benefit of NAFTA to my constituents is clear. But I do not support NAFTA just because its good for Oregon. Or for the Mexicans. I support the trade agreement because it is in the interest of all Americans. The world economy is globalizing as international trade flourishes. We cannot hang on to the economies of the past, even if special interests say we should. If we fail to rise above the demagoguery and emotional opposition and pass NAFTA, we will send a grim message to the European Community and the Far East -- the U.S. isn't really interested in free trade; move on without us. If we don't move to take advantage of new markets, they will.

Today we are taking a closer look at the agreement's impact on food safety, pesticide regulation, and labor. As I understand it, under NAFTA, the U.S. will be allowed to ban any agricultural imports that violate our quality and safety standards. If an exporter's shipment is found to be in violation of these tolerances, future shipments from that exporter will be earmarked for detention and heightened inspection.

Concerns have been raised about pesticide residue in imported foods, and whether we'll be able to keep our food supply safe under NAFTA. I look forward to the Administration's testimony on this issue, and I am hopeful they will be able to correct the numerous misconceptions we've all heard.

An array of labor and preservationist groups are opposed to NAFTA. Preservationists contend that NAFTA will result in Mexican companies, or American companies in Mexico, polluting the environment. Labor argues that U.S. firms would move south of the border in droves to take advantage of the lower wage rates. There, the argument goes, they will be free from environmental safeguards.

I believe they are wrong on both issues. First, industrial labor costs in the U.S. average \$14.30 per hour. In Mexico, its \$2.20 per hour. The incentive to move to Mexico to take advantage of labor costs alone is already there. Any firm that wants to take advantage of low wage rates has probably already done so. And they will continue to, with or without NAFTA. Second, anyone who believes that a poorer, less developed Mexico -- as we see now -- would be

-3-

more inclined to protect the environment than a healthy, developing Mexico is nuts. Environmental protection is expensive. Poor nations do not pay to do this -- it just doesn't happen.

In any event, I am excited about the benefits NAFTA will create for Agriculture and the American economy, and I look forward to today's hearing. Thank you.



**CHARLES T. CANADY**  
12TH DISTRICT, FLORIDA

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**THE HONORABLE CHARLES T. CANADY**  
**of Florida**

**before the**  
**HOUSE COMMITTEE ON AGRICULTURE**

**October 13, 1993**

**Thank you, Mr. Chairman.** I am pleased that the Administration is appearing before the Committee today to discuss the issues of cross-border safety inspection, pesticide regulations and labor issues related to the North American Free Trade Agreement (NAFTA) and the proposed side agreements.

It is well known that Florida's \$6.2 billion agricultural industry is greatly concerned with the NAFTA. This agreement threatens literally to devastate agriculture in Florida.

Today's witnesses represent the areas of the Administration that will oversee the importation of Mexico's fruits and vegetable. They will be responsible for ensuring that the imported produce complies with American sanitary and phytosanitary standards, food safety laws, pesticide residue regulations, and for monitoring the quantity levels of products imported into the U.S. market. Basically, they are the last line of defense for ensuring the American public that the fruits and vegetables they purchase, whether fresh or processed, are safe and wholesome.

**Mr. Chairman,** Florida agriculture is proud of its rich and bountiful agricultural production history. They welcome imports and they welcome competition. All they ask for from us is that we give them the chance to continue to produce safe, abundant foods -- on a fair and level playing field. They are relying on the Members of this body to ensure that they are given that chance.

**Thank you, Mr. Chairman.**

QUESTIONS FOR WITNESSES AT FULL AGRICULTURE COMMITTEE HEARING  
FROM CHARLES T. CANADY  
of Florida

THURSDAY, OCTOBER 14, 1993

1. FOR DOL, CUSTOMS SERVICE, FSIS, APHIS AND FDA - How can this Committee provide your respective agencies with the authority and resources to provide the necessary records to monitor the types of imports, the quantity of imports, the sanitary and phytosanitary condition of imports, and other pertinent information in order to sufficiently monitor the cross border trade in fruits and vegetables?
2. FOR DOL, CUSTOMS SERVICE, FSIS, APHIS AND FDA - What is the current process by which your respective agency reviews, tracks and keeps records of imported and exported fruits and vegetables? What is the information you collect and how is the information provided to the public?
3. FOR CUSTOMS SERVICE AND FDA - Please describe, in detail, how your agency examines and performs reviews of imported products. How long does the review and laboratory work take? Where is the laboratory work performed?

(The answers were not submitted at time of printing.)

STATEMENT OF CONGRESSSMAN TERRY EVERETT  
AGRICULTURE COMMITTEE HEARING ON  
FOOD SAFETY AND PESTICIDE REGULATIONS  
OCTOBER 14, 1993

I would like to thank the Chairman, Mr. de la Garza, and the ranking member Mr. Roberts for their leadership in having these hearings on NAFTA today. I feel that many of the issues we will discuss today, such as cross-border food safety inspection, and pesticide regulations, which are of great concern to the agriculture community.

I must say these issues were of concern to farmers and producers before NAFTA, but unfortunately I can't find anything in NAFTA which adequately addresses these concerns.

As you may know, I represent the third largest Congressional District in terms of peanut production, and the majority of the fifteen counties I represent depend upon peanuts for their economic well-being. NAFTA represents a threat to this nation's domestic peanut supply because producers must compete with foreign peanuts which are produced by countries with

little or no environmental or labor regulation, thereby making these inferior peanuts less expensive. Why should the American peanut farmer, which has consistently produced the highest quality product in the world, be penalized for maintaining superior quality standards?

For those who say that Mexico does not produce that many peanuts, there is strong evidence supported by university and industry studies which indicate that Mexico could become very competitive in terms of peanut production.

In addition, how can we have "upward harmonization" of standards when each country is guaranteed the right to set their own domestic environmental standards. We are simply locking in Mexico's standards, and not providing an enforcement mechanism if they continue to violate their own laws.

In terms of foreign agriculture entering this country, we have seen a marked increase in TB in Mexican beef coming into the country, as well as several E coli outbreaks that were traced to foreign beef. In fact, a family in my district has a twelve year old child who barely survived after eating tainted beef. I feel that nothing in NAFTA addresses these issues, and with no

scheduled increase in border inspection and auditors by the Customs Service and USDA, there is no way that we can continue on the present course of food safety and pesticide residue inspection.

I look forward to the testimony today, and welcome an open discussion of NAFTA.

THANK YOU, MR. CHAIRMAN

(Attachment follows:)

QUESTIONS FOR AMBASSADOR KANTOR  
U.S. TRADE REPRESENTATIVE

QUESTION 1: Have any studies been conducted by the U.S. which show how quickly tariff rates place Mexican-grown peanuts equal to or more competitive than peanuts grown for the domestic market? In other words, is there any evidence that shows how soon the Mexican peanut market under the new tariffication will gain an advantage over U.S. domestic peanuts?

QUESTION FOLLOW-UP: Can you tell this me how the border enforcement procedures can preclude the import of previously exported DOMESTIC ADDITIONAL PEANUTS, which can be processed into peanut butter and other products, and then exported back into the U.S. domestic market, in violation of U.S. law? { There is a 140% penalty under current U.S. law }

QUESTION 2: The U.S. has already seen a huge increase of Canadian peanut product imports under the Canadian Free Trade Agreement (CFTA).

SOURCE: Foreign Agricultural Service

1992- 662,000 metric tons imported through Canada

1993- 1,152,000 metric tons imported

Would you consider this a surge, and what would the procedures be, under the side agreements, which would address this issue? Given the past experience with durum wheat, at what point would the U.S. consider an influx of peanuts from Mexico or Canada a surge?

QUESTIONS FOR MS. BROWNER  
EPA

QUESTION: This committee is aware that Mexico is using a significant number of insecticides, fungicides, and soil fumigates, which are prohibited from use by American peanut producers. Do we know the effect this will have on the competitive position of American producers, given that the cost for producing peanuts in Mexico using banned chemicals is lower than the U.S. peanut farmer? Although we know that the U.S. says that they will not allow foreign agricultural produce which contains residue of these banned substances, do we have the manpower and border inspection infrastructure to address this problem effectively?

If we can't test for these banned chemicals effectively at the border, how can we be certain that Mexican peanuts crossing the border are not in fact U.S. Additional Peanuts that have been processed into peanut products?



QUESTIONS FOR SECRETARY ESPY

How will the domestic peanut program and Section 22 be impacted under the NAFTA?

How does the NAFTA or its supplemental agreements protect Section 22 and the ability of the U.S. to maintain its ability to limit imports to protect the operation of and lower the cost of operating domestic farm programs?

(Answers were not submitted at time of printing.)

The CHAIRMAN. As I mentioned, one of our guests has a time-frame problem, and that is Mr. Ross from the Labor Department. So with the agreement of the other members, I will call on Mr. Ross at this time in order that he might present us his testimony and be available for questions to the extent that we have time within his need to depart.

We welcome you and will hear from you at this time.

**STATEMENT OF DOUGLAS ROSS, ASSISTANT SECRETARY,  
EMPLOYMENT AND TRAINING, U.S. DEPARTMENT OF LABOR**

Mr. ROSS. Thank you, Mr. Chairman, particularly for your understanding, and members of the committee. I'm pleased to testify before you this morning on the North American Free-Trade Agreement—NAFTA—and I want to focus my brief remarks on two particular action items: First, the development of a comprehensive worker adjustment system to ensure that no worker will face unaided the challenge of adapting to economic change, whatever its causes; and, second, a transitional program to assist any workers who are adversely affected by the agreement until this comprehensive system can be in place.

As Secretary Reich has so eloquently testified, NAFTA will mean more jobs and better jobs for American workers. It remains true, however, that despite the final tally of job growth, a very small proportion of working Americans face the prospect of dislocation as a result of the changes NAFTA brings about. The question is: How should we respond to those Americans who find their jobs at risk?

Let me start by trying to make four critical points. First, labor-market pressures resulting from NAFTA will not come as a sudden, sharp shock. The major changes will develop gradually, giving us time for adjustment as the agreement is phased in over the course of a full decade. Second, a supplemental understanding, which accompanies the agreement, on import surges provides a safety mechanism to give some breathing room if the pace of change proves in some areas to be too disruptive.

Third, the total number of workers put at risk by NAFTA will be quite small relative to the opportunities generated by our large, rapidly changing national economy and relative to the total amount of job change that Americans will experience during the years that NAFTA is phased in. In other words, this economy is going through, as you know, an enormous structural change that will affect much larger numbers of people. Fourth, and perhaps most important, this administration fully recognizes our obligation to ensure that no citizen bears disproportionately the costs of changes that benefit all of us, and we're prepared to meet that obligation with a comprehensive strategy for helping workers who have lost their old jobs to find new jobs.

Let me begin with that comprehensive strategy that we are proceeding to develop as we speak. It's a strategy whose motivation and effects go well beyond NAFTA, because it's equally relevant to our challenge of scaling back weapons production and converting to a productive civilian economy, adjusting to the unprecedented technological changes shaking up entire industries, adapting to the downsizing of major corporations, and adopting production technologies that do not pollute the environment.

Each of these structural changes will benefit us as a nation, but each has as a side effect the potential dislocation of some small subset of workers from the jobs they now hold. People need to know that this administration will have policies in place to help ease the transition from this old, in many cases declining economy, to the new, expanding one. These policies will help people who believe their jobs may be at risk because of NAFTA, just as they will be available to everyone who wants to, or has to, change jobs in the years to come.

Now, Mr. Chairman, within the next few months we will propose legislation which will move us from a system that simply buffers the pain of unemployment toward a system that speeds displaced workers into reemployment. For over 50 years, we've had an unemployment insurance system premised on the notion that what workers need most is some income assistance during economic downturns, typically lasting no more than 6 months, until they get their old jobs back in the same company or in the industry they left.

We've had a scattered array of job training programs, as you know, with each one designed to help a different category of workers who lost their jobs.

Unemployment insurance still helps people, of course, and particular identifiable groups of workers still need retraining. But given the huge structural changes in the American economy, this old system has become a Band-Aid rather than a cure. Lately, we're spending more than \$35 billion a year just keeping people financially intact until a new job comes along. In each of the last 2 years, the Federal Government spent \$12 billion a year simply extending unemployment benefits. The fact is that with or without NAFTA, more and more Americans need to find new jobs in new industries, and many of them need retraining—often long-term retraining—regardless of the reason they lost their job.

So as a first step, we will seek to identify permanently displaced workers early on. We've found that the early identification of dislocated workers, followed by early readjustment and job search assistance for them, cuts their time spent on unemployment, along with the associated costs and personal pain. The reemployment system that we're proposing will feature universal access for displaced workers, including displaced farmers and farmworkers, so that the help they receive will depend on what they need to get a new job, not on the reason why they lost their old job. Assistance with unemployment insurance, job search, career counseling, and job retraining will be available through one-stop centers, with a minimum of redtape and without this need to run around to a whole lot of different places to find out what you're eligible for and to get good information.

We think a fundamental flaw in our present unemployment compensation scheme is that while it supports people who are unemployed and looking for new work, it typically does not support people while they are receiving longer term training. We hope to eliminate this flaw. We aim to provide income support for displaced workers who need extended retraining and are making satisfactory progress in full-time training programs.

Finally, it's worth noting in this time of tight budgets and eroded faith in public institutions, that reinvented Government is a hallmark of the comprehensive worker adjustment system I've described. Just as our private sector has become more attuned to serving customers quickly, flexibly, and efficiently, so must our public sector. A shiny new training program does no good if it's giving people skills that aren't in demand. Filling out the same form three times for three different agencies wastes time, shortens tempers, and undermines confidence. For these reasons, accountable, customer-driven, locally based ways of doing the public's business are built right into the ground floor of our system, not tacked on as an afterthought.

Now if I can turn briefly to the second item I wanted to talk about, which is the transition from NAFTA to this new comprehensive system. It's our hope and expectation that this comprehensive reemployment program will be enacted by Congress early next year and take effect by July 1, 1995. In the interim period between the effective date of NAFTA on January 1, 1994 to the beginning of this new program—in other words, that 18-month period—the administration is committed to ensuring that workers adversely affected by NAFTA be provided early, effective, and comprehensive adjustment assistance. Such assistance will be provided to workers who lose their jobs either because of an increase in imports from Mexico and Canada, or because of a shift in production by a worker's firm to either of those countries.

In order to meet this commitment, the administration proposes to combine the best aspects of title III of the Job Training Partnership Act, which is commonly referred to as EDWAA, and the trade adjustment assistance program by providing the most effective services from both programs. Specifically, the administration proposes that such assistance for anyone affected by NAFTA incorporate these key elements: A quick determination of eligibility for assistance; the immediate provision of critical rapid response and basic readjustment services that will begin this process of finding a new job; and, for those who need it, skills training accompanied by income support that will enable workers to participate in such training that will help them find a decent next job.

This array of services foreshadows the approach to adjustment assistance that we will be pursuing in this comprehensive program. In ensuring that NAFTA-impacted workers have such services available as soon as the agreement takes effect—January 1, 1994—this transitional program will provide an important downpayment on the comprehensive systematic reform that will follow.

Mr. Chairman, that concludes my prepared remarks.

[The prepared statement of Mr. Ross appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. We're going to deviate. Usually we'd hear from all of our guests, but since you have to leave, we'll take some questions that members might have.

I have a question, Mr. Ross. There is considerable concern with retraining, relocation, and job training attributed to NAFTA. My question to you is—laying the preface that companies were relocating within the United States before NAFTA came into the picture and they were retrenching and releasing workers almost daily my

question to you: Is what you have told us, is that solely related to NAFTA, or will the process continue regardless of NAFTA? Because the problem was there before any discussion of NAFTA.

Mr. ROSS. Absolutely. You're quite right, Mr. Chairman. The comprehensive program that we believe is the right response to all of this dislocation is designed to provide both assistance in finding a new job and new skills when you need them to find a new job for every American who loses their job, regardless of the cause. The reality is international competition, things you're mentioning—restructuring of businesses, technological change—all of these things have been having an enormous effect and will continue to have a much greater effect than any of these individual trade agreements, including NAFTA. Therefore, the comprehensive approach is intended to cover everyone.

What we're simply saying is that because we don't believe we will be able to enact that comprehensive approach or have it take effect until July 1, 1995—at least, that's our goal—there is this 18-month period, and I know there's been concern that anybody dislocated by NAFTA would be assured of having these kinds of services that in fact every dislocated American needs. So we're saying in that 18-month period until the comprehensive program takes effect, we're prepared to offer a bridge program, a transition program, so that no one who loses their job because of NAFTA need be left alone to bear that burden without some real assistance.

The CHAIRMAN. Thank you. Somehow the perception is that it's only the United States and Mexico. I mentioned Canada to someone, and they said, "Well, why do you have to bring Canada into the picture?" Because it's North American—United States, Canada, and Mexico. No one is complaining about Canada, but if you speak to some of our colleagues whose States are adjoining Canada, you find we've got more problems, especially in agriculture, with Canada than we have with Mexico. But are you also looking at impact from Canada? Is it a comprehensive program for north border and south border—

Mr. ROSS. In terms of the efforts to help people who would be impacted by this, it's clearly anybody who's impacted because of exports that come into this country from either Canada or Mexico or who lose a job because production might move over time to either Canada or Mexico. So, absolutely, this is a two-border perspective.

The CHAIRMAN. There is a very good leaflet that's going to be made public today by USA NAFTA that shows jobs related to exports to Canada and Mexico—like Minnesota, for example, 34,000 jobs; New Jersey, \$3 billion and 99,000 jobs. Also, every member has a publication at your desk which shows U.S. exports to Mexico, and we hopefully will have one also with Canada.

Now, we'll follow the usual practice of time of arrival for questions. Mr. Holden, do you have any questions?

Mr. HOLDEN. Yes, Mr. Chairman.

Mr. Ross, you mentioned in your testimony that you believe that there will be a short-term job loss if NAFTA is enacted, and I believe that the Bush Administration had said the same thing. It's great to talk about training of displaced workers, but I'm afraid that I represent an area of the country that is already losing jobs, and I'm very concerned what particular type of training we're talk-

ing about. We have a manufacturing base in Pennsylvania that is shrinking. We have farmers who now are forced to have one member of the family work outside of the farm, and I'm hearing concerns from farmers that, "Well, if we're going to have problems with NAFTA in the manufacturing base, maybe we're going to have sort of a back-door effect on the farmers."

We have people all over this country, and especially in Pennsylvania, who don't want to leave where they were born and raised. Many of their families have been there for generation upon generation, and if they're going to see a side effect from NAFTA, if we are going to retrain these workers, is it going to be possible to keep them where they want to stay? What is the plan of the administration as far as training of displaced workers?

Mr. ROSS. Good question. I guess to begin with, in terms of the job loss issue, of the 20 independent studies that have been comprehensive in terms of the total job impact, 19 of the 20 have indicated that it will be a net job creator. Certainly that will mean more people will get new jobs than will lose old jobs, but it still means people having to move jobs, and I think that's the point you raised.

The question is what have we learned about training people effectively. We've learned the following things: First of all, most people who lose a job can find another one without training, but they do need quick, up front help, especially in identifying what skills they actually have from their old job that are in demand elsewhere in that labor market, and where we can hook up with people immediately, the time they're unemployed decreases and the wages at which they return to employment tend to be higher than if they've been off for a long time.

We're finding that about 20 percent or so conclude that they need some new skills to find a good job, and so the question becomes: When does that make sense? When does it work? It seems to work under two conditions. The first is generally it needs to be longer term training. These few-month courses are often not enough to acquire a new set of skills. What's needed is more like the kind of training you get if you went to a community college where you said, "Now I'm going to become a computer aided design operator" or "I'm going to be a med tech" or "I'm going to develop some particular set of skills." That's No. 1.

No. 2, the way we're proceeding is we think we should invest money in people's training and they should only spend their time only when it is either directly in connection with an employer in the area who has a job to fill or it's through a provider that has a record of placing the great majority of the people it trains in the occupations for which they trained, which means of course, they're connected up to the private sector.

The final question was will people always be able to find a decent next job where they're living. I think probably we're finding—and you can take NAFTA off the table and just talk about all the changes that Pennsylvania and all of the industrial States have been experiencing—I'm afraid the answer in some cases is no. Some towns were built around a single industry. As that industry declines, they may have to move. We need to do a better job of giving them good information about opportunities in other places they

might live, maybe where their in-laws are from, or maybe someplace they have a brother, or some other place where there's some family connection.

Mr. HOLDEN. Thank you.

The CHAIRMAN. Mr. Combest.

Mr. COMBEST. I'll pass, Mr. Chairman.

The CHAIRMAN. Then we have Mr. Smith from Michigan.

Mr. SMITH of Michigan. Well, hello.

Mr. ROSS. Hello.

Mr. SMITH of Michigan. From the standpoint of one of Michigan's concerns, will the auto industry lose or gain jobs?

Mr. ROSS. Mr. Chairman, the reason for our informal initial greeting of each other is we're both from Michigan and actually served in the legislature consecutively, I think.

Or you were in the House and I was in the Senate, and then you went to the Senate.

Mr. SMITH of Michigan. Right.

He seems like a very good person, Mr. Chairman. [Laughter.]

Mr. ROSS. I think, Congressman, these are questions of opportunities. I think there have been some studies which indicate that the auto industry ought to benefit, that right now we're running a positive balance of trade in terms of the auto industry with respect to Mexico, and that right now most of the tariff barriers confront us, not the Mexicans. We have much lower tariffs in terms of being able to bring parts and so forth into this country than the reverse. So the advantage of this is us getting access to markets where we have less access now.

A lot depends on how the industry responds, but the hope is that we in this country and in places like Michigan will continue to get the higher and higher value-added jobs, increasingly skilled jobs, as we're already losing the very low-skill jobs around the world irrespective of that.

Mr. SMITH of Michigan. It's been so frustrating because as you examine the economic reports, there are a lot of suggestions that the auto industry might very well be in the top five of those benefiting from expansion, and yet we see the UAW feeling very strongly that it's going to endanger their jobs in the auto industry.

Mr. ROSS. Well, with any change, I think it's understandable people don't know for sure what's going to happen. No one ever knows exactly what happens as these things play out. But I think that for skilled, aggressive industries, this ought to be an opportunity.

Mr. SMITH of Michigan. Does that include the auto industry?

Mr. ROSS. And the Michigan-based auto industry, I think, very much is part of that.

Mr. SMITH of Michigan. Let me briefly follow up. Isn't the training and the kind of worker that's in demand now going to be about the same after NAFTA as it is today? We have competed against low-labor-cost countries for the last decade, and we have a feeling of what kind of advantages and disadvantages this country has. Are we making an effort to tell high schools, trade schools, vocational schools, colleges, "Look, this is the kind of demand that we see out there for graduates?" Is that information available to those vo-tech schools, high schools, trade schools?

Mr. ROSS. Information is available, but we need to do a much better job, I think, through this whole one-stop system of career centers that we contemplate so that all Americans, whether it's parents with their kids, or people looking for a next job or employers, have a clear sense of what demand looks like. There are a couple of pieces of legislation—I will not digress, but, briefly, the national skill standards, which is part of Goals 2000, which is moving through the Congress, calls on industries to begin to define the kinds of competencies they require and will require in the years ahead so we all know what preparation is like, and, secondly, this whole school-to-work initiative, which is also moving through the Congress, attempts to connect kids to industries earlier so they understand what's needed.

Mr. SMITH of Michigan. You've done a great deal with job retraining in your experience in Michigan. Do you have some kind of a listing, some kind of guidelines that I could send out to my high schools and vocational schools? Do you have some kind of a list of qualifications that are going to be in demand? Are we smart enough to develop that kind of information to put out to our country and the young students that are just graduating? Are we smart enough to retrain them in the kinds of things that manufacturing and other companies want?

Mr. ROSS. Well time will tell, but we are developing information right now around those clusters of careers that are showing strong growth and then the ability to define what you need to know to be part of those growing, higher-paying occupations, and we'd be happy to send that kind of information.

Mr. SMITH of Michigan. Thank you, Mr. Chairman.  
[The material follows:]



U.S. Department of Labor

Employment and Training Administration  
200 Constitution Avenue, NW  
Washington, DC 20210

DEC 22 1983

The Honorable Nick Smith  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Congressman Smith:

Assistant Secretary of Labor Doug Ross asked my office to send you the enclosed Department of Labor publications, as a followup to your recent exchange with him during a hearing on NAFTA concerning the need for career and occupational information.

The reports cover a variety of related topics--including career guidance, occupational projections, qualifications needed to succeed in today's workplace, the workforce impact of economic change and how communities can meet the demands of the new labor market, and facts about a successful alternative high school.

Among other objectives, these publications are designed to help prepare youth to compete successfully in the world of work. They have been distributed widely to the education, training, and business communities. I hope they also will prove useful to students and to high school and vocational school personnel in your district.

We have a good supply of most of the publications enclosed. Please have a staff member contact me (on 219-7664) if you would like more copies or additional information.

Sincerely,

ABBY MARTIN  
Chief, Dissemination Unit

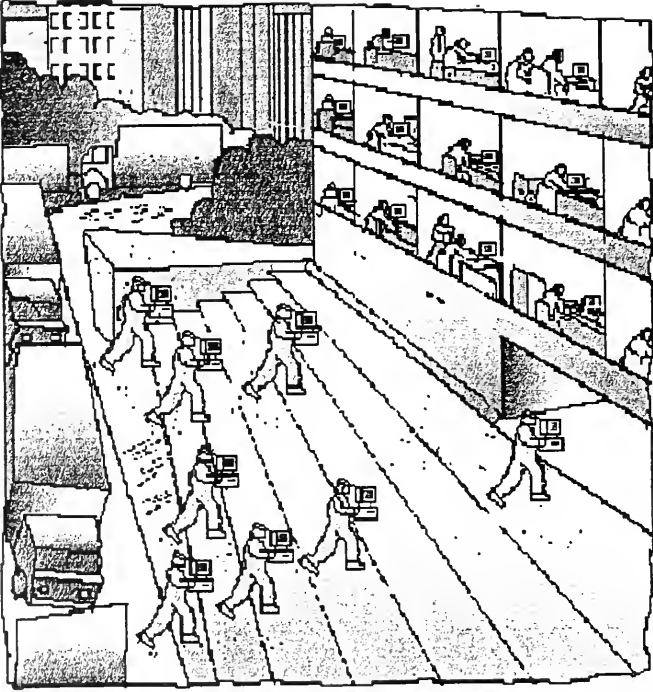
Enclosures

(The following publications are held in the committee files:)



Occupational Outlook Quarterly

U.S. Department of Labor  
Bureau of Labor Statistics  
Winter 1992-93



Computers: Instruments of Change

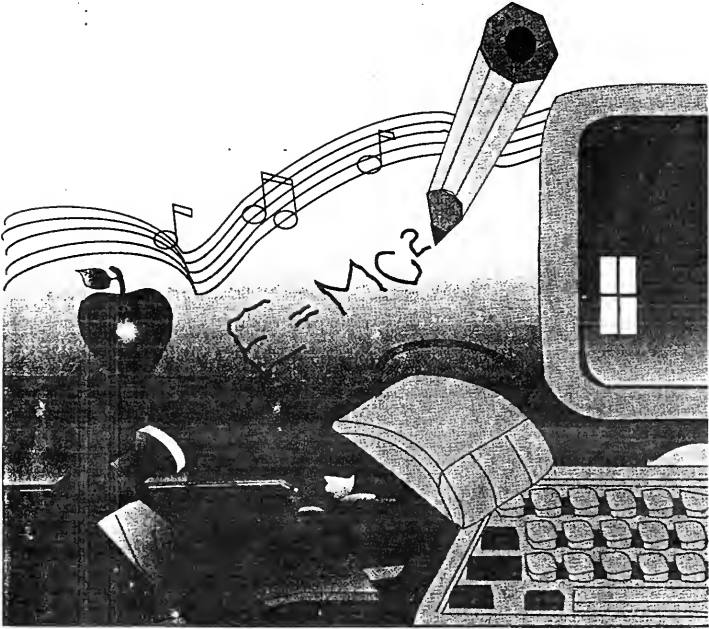
# Tomorrow's Jobs



Reprinted from the  
Occupational Outlook Handbook, 1992-93 Edition

U.S. Department of Labor  
Bureau of Labor Statistics

Bulletin 2400-1



# Working for US in the 1990's



U.S. Department of Labor  
Bureau of Labor Statistics

Reprinted from the Summer 1993 Issue  
of *Occupational Outlook Quarterly*



# Tips For Finding the Right Job



U.S. Department of Labor  
Employment and Training Administration  
1991



SCANS

# LEARNING A LIVING:

A BLUEPRINT FOR  
HIGH PERFORMANCE



A SCANS REPORT FOR  
AMERICA 2000

## EXECUTIVE SUMMARY

SCANS  
THE SECRETARY'S COMMISSION ON ACHIEVING NECESSARY SKILLS  
U.S. DEPARTMENT OF LABOR

APRIL 1992

SCANS

# WHAT WORK REQUIRES OF SCHOOLS



A SCANS REPORT FOR  
AMERICA 2000

A LETTER TO  
PARENTS, EMPLOYERS,  
AND EDUCATORS

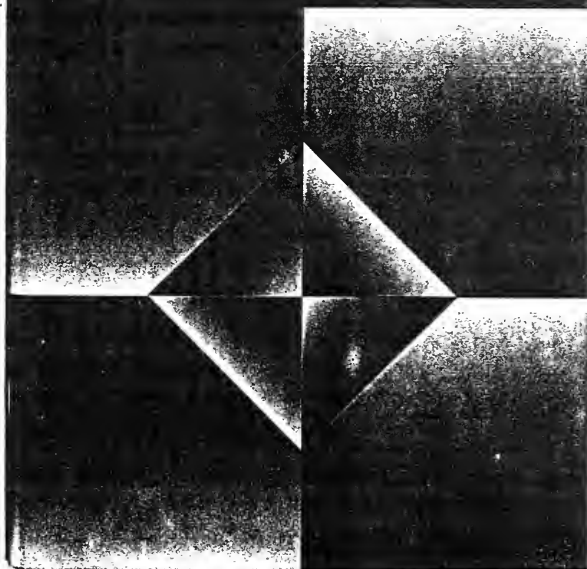
FROM THE SECRETARY OF LABOR AND THE  
SECRETARY'S COMMISSION ON  
ACHIEVING NECESSARY SKILLS

THE SECRETARY'S COMMISSION ON ACHIEVING NECESSARY SKILLS  
U.S. DEPARTMENT OF LABOR

# Work-Based Learning: Training America's Workers



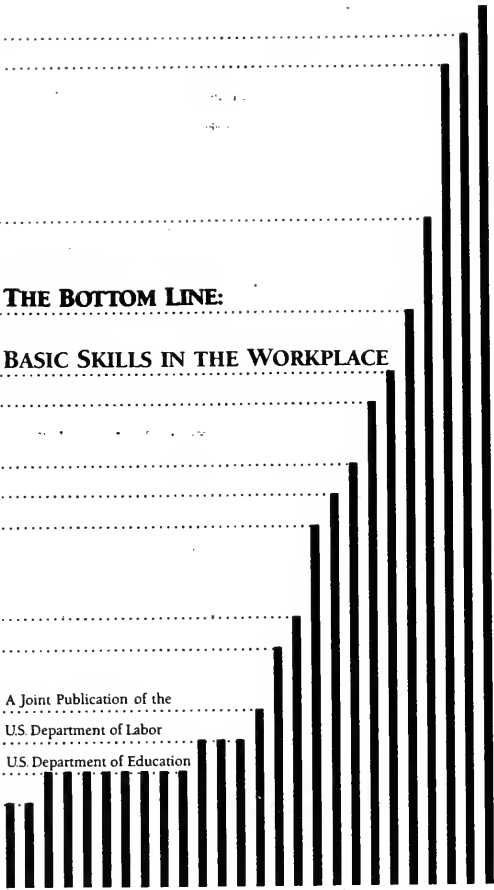
U.S. Department of Labor  
Employment and Training Administration  
November 1993



**THE BOTTOM LINE:**

**BASIC SKILLS IN THE WORKPLACE**

A Joint Publication of the  
U.S. Department of Labor  
U.S. Department of Education





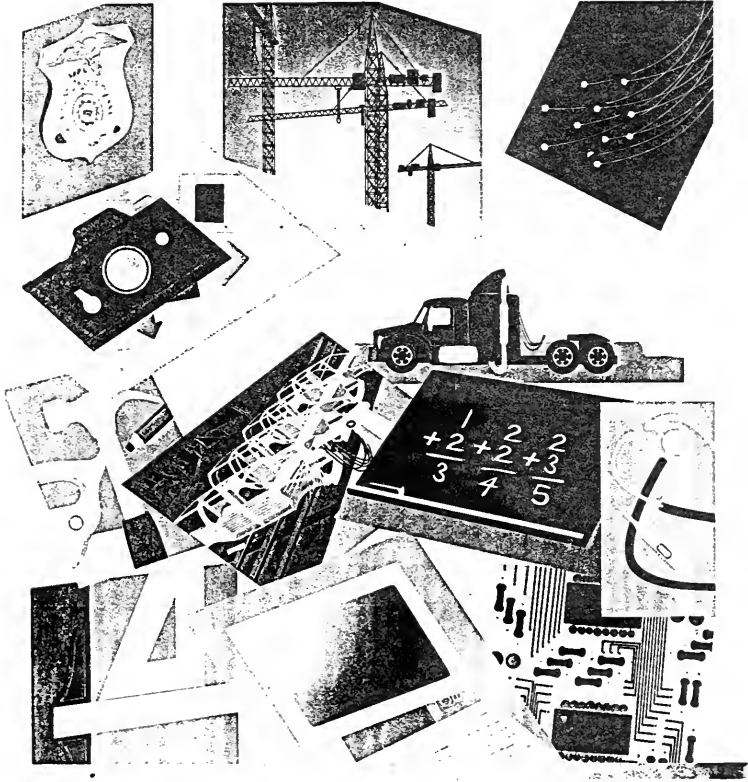


Monthly Labor Review

U.S. Department of Labor  
Bureau of Labor Statistics  
November 1993



*In this issue:*  
The American work force,  
1992-2005



The CHAIRMAN. The time of the gentleman has expired.

We don't know if we're going to have a vote. Also, the witness' timeframe was such that he had to leave early. We may have to invite you for another session with members, but for now we'll continue with the members and we'll follow the list. But if you have a question, let's try it with one question per member and see how far we can go. Then I'm definitely sure that we need to invite either Secretary Reich or you—probably you, because you're the technical person in this area.

I'm sure your colleague, Mr. Smith, told you what a great guy you were and then asked are you smart enough. So I'll take that what a great guy you are from him and disregard the are-you-smart-enough question. [Laughter.]

Mr. ROSS. Thank you, Mr. Chairman.

The CHAIRMAN. We have Mrs. Thurman.

Mrs. THURMAN. Thank you, Mr. Chairman.

Mr. ROSS, a couple of months ago this committee went to Florida, and we had over 200 people come to a public hearing there, mostly people who were working in the agricultural industry, and we had some testimony from some people who had been working in processing plants, packing plants, in the fields, whatever. Their concern was that they were 50, 56 years old, and all of the retraining and all of the kinds of things that you might be able to do for them if they were displaced from their positions, with the unemployment rate so high—I watch every day maybe 200 to 300 applicants going for any one job. What is your answer to them?

And then the second half of this question is—and I understand we're trying to work through some health care issues, but what about these people's pensions that they've not been able to vest in at that point, and then what do we see of this as the cost to the U.S. taxpayer?

Mr. ROSS. Well, as you know, Congresswoman, the President has been talking about this whole notion of what is security in this new economy in which we find ourselves, and it is in part health security. It is the ability to carry your health coverage with you. It is increasingly pension portability. It's the recognition that you will change jobs and that you need to be able to take some control of this and carry it with you. In the job area, it is the ability to both have good ongoing information so you can begin managing your career, looking ahead, knowing what to do to move from one job to the other, and the ability to learn new things when you need to learn them.

Now, as a 51-year-old American, I still believe it's possible to learn new tricks in your fifties and we have lots of examples from around the country of people changing careers or changing jobs in their fifties and being able to learn fundamentally new things. I think it's particularly frightening if you've been doing the same thing for 30 or 35 years, and I grant that these are not easy changes. But we're trying to create a system where people can navigate, and even if you're in your fifties or early sixties and still need to make a change, it is possible.

Mrs. THURMAN. But the second half of that question is—and, truly, who's going to hire them with the competition out there with the younger person, who also has been displaced? And, again, what

is the pension plan to these folks? I mean, they've worked sometimes 25 years, and they're sitting there wondering what happens to their benefits for retirement. And, again, what is the cost of this to the United States if these things are not picked up?

Mr. ROSS. Again, I think your broad question is—I guess I'm not the best person to talk to you about the right way to handle pensions. I would simply conclude by saying the problems you're describing are much broader than NAFTA, need to be dealt with broadly for all these different causes, and that NAFTA, at worst, will only contribute a small bit to them.

The CHAIRMAN. Thank you very much.

Mr. Ewing.

Mr. EWING. Thank you, Mr. Chairman.

Mr. Ross, I am interested in knowing what, if any, study your Department has done about the loss of jobs that might result if the President's plan for increased taxes to pay for the loss of revenues from reduced tariffs is enacted by this Congress. There are projections that in the airline industry alone there would be hundreds of jobs lost by the proposed increase in taxes, and this is going to have a very serious effect on the adoption of the NAFTA agreement.

Mr. ROSS. Congressman, you're talking about the costs of implementing NAFTA? Let me understand your question.

Mr. EWING. Well, there is a need to either reduce spending or raise taxes to offset the loss of revenue from tariffs if the NAFTA treaty is agreed to. One of the President's proposals is for an increase in airline and shipping travel fees to raise this money, a new tax on business to raise the money to offset this. That will, according to the airline industry and, I'm sure, others, result in the loss of jobs. What study has your Department done in that regard?

Mr. ROSS. In terms of any labor impacts on any possible alternative ways of covering the cost of lost tariffs, the Labor Department hasn't. If there were any effort to look at that, it probably would be Treasury.

Mr. EWING. But wouldn't it be your responsibility to look at potential loss of jobs from whatever avenue or whatever reason because of the adoption of the NAFTA treaty?

Mr. ROSS. Our responsibility would be to make sure that if people are dislocated by any of these changes, including NAFTA, they have resources available to help them move ahead with their job lives. It's really not essential certainly in employment and training to try and simulate what all kinds of changes and tax structure and so forth might—

Mr. EWING. So you're not really looking at job loss from NAFTA in any regard.

Mr. ROSS. No, I think that's not correct.

Mr. EWING. Then, I would suggest you should go back and look at this, and I would certainly be interested in what your Department might find as a result.

The CHAIRMAN. Thank you.

Mr. Bishop.

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

Mr. Ross, I appreciate the loyalty that you display in expressing the administration's firm beliefs that NAFTA is a good idea and

that the readjustment strategy will address the labor concerns. However, I have some serious concerns as reflected by my constituency that is poor—it's one of the poorest districts in the country; high unemployment; low educational attainment—54 percent of the adult population in my congressional district over 25 has no high school diploma; low per capita income. It's a very highly agricultural area. We have textile mills. The people are very concerned about the loss of jobs, and all of the retraining, the identification, the eligibility, the adjustment programs that you suggest are all well and good, but training them for what jobs in the geographical locations where they live?

I represent one-fourth of the State of Georgia in land area. There are four urban centers there, population centers, but the rest of it—31 of my 35 counties are rural and agricultural areas. How are they going to pick up farms and move forward for new jobs for which you propose to train them? It seems to me that there is some basis and reason to be highly skeptical of a Labor Department unemployment system or readjustment process that's going to train them for jobs that they can't see existing in the geographical areas where they've been for two and three generations. How do we sell that kind of pie in the sky to people who are working the soil?

Mr. ROSS. Well, Congressman, that is a good question. Let me assure you my views are a reflection of commitment, not just loyalty. I believe them deeply. The reality is—NAFTA quite aside, and we can come back to NAFTA in a second—that Americans with very little education for the last 20 years have been falling backwards steadily in terms of their real wages and their real employment opportunities. We could defeat NAFTA, and the folks in your district would face the same prospects that they have been facing for some years.

Mr. BISHOP. But not at the accelerated rate.

Mr. ROSS. Again, the forces affecting the people in your district that are powerful are well beyond anything NAFTA can possibly generate, given the size of the Mexican economy and all of the projections that have been done by all of the economists, who have no particular political or economic stake in this one way or another.

Mr. BISHOP. They were paid by folks to do it.

Mr. ROSS. But all kinds of groups did it from all kinds of different areas.

The CHAIRMAN. The time of the gentleman has expired. You may conclude your answer, Mr. Ross.

Mr. ROSS. Very briefly, ultimately, there's no substitute for figuring out how to help your constituents get more skill and education that are in demand. That's the only way they're ever going to command middle-class wages. Whether they'll be able to do it where they've lived for the last few generations will depend on the entrepreneurial spirit there and so forth. They may have to move. People have been moving to cities for a good deal of time.

But there are jobs being created—over 1 million in the last 6 months alone—and there are millions of jobs that turn over on a regular basis. So there are opportunities, but increasingly only for people with skills, and that's what we have to make sure your constituents have a real shot at.

Mr. BISHOP. So I need to tell them that they will end up having to move away if NAFTA passes.

Mr. ROSS. No, I think that would be misleading. I think whether NAFTA passes or not, they face the same challenges of having relevant skills to sell in the world. That's what I think we both need to tell them.

The CHAIRMAN. The time of the gentleman has expired.

Mr. Smith.

Mr. SMITH of Oregon. Thank you, Mr. Chairman.

Mr. Ross, the fact is that your effort here to retrain and reeducate is an admission of job loss in itself. How much money do you have set aside or do you estimate it will take in the bridge of 18 months that you discussed in your testimony?

Mr. ROSS. Well, again, in the discussions that have taken place about what kind of change could take place over 18 months, there's broad general consensus that very few people are likely to be dislocated over that period of time, that whatever impact NAFTA has will occur as these tariffs come down over the 10-year period. Even if someone had decided that they wanted to take advantage of a lower tariff, it's very hard to build a new plant in 90 days or anything of that sort.

Mr. SMITH of Oregon. How much money over 10 years do you estimate for retraining?

Mr. ROSS. We estimate that in order to provide placement services, counseling support, training, and income support for extended training for people losing their jobs, whatever the cause, be it technology, foreign trade, NAFTA, whatever, probably at least the training parts and the service parts are about \$2 billion a year if we got to the point of offering it to all Americans. We probably spend at least \$700 million now between the defense program, the clean air program—

Mr. SMITH of Oregon. How many jobs does that represent, Mr. Ross?

Mr. ROSS. It represents about, for all sources—what's happened over the last decade is anywhere from about 1.8 million to 2.2 million people a year are structurally unemployed, most related to all of these other forces. So we're talking about a couple million people a year in America who will lose their job and can't expect to get their old job back or find another one like it, and that's what all of this is aimed at.

The CHAIRMAN. We now have Mr. Pomeroy.

Mr. POMEROY. Mr. Ross, I commend you for the retraining activities undertaken by the Labor Department irrespective of NAFTA. I believe these initiatives are overdue and desperately needed and commend you for them. It seems to me, however, that the thrust of your testimony talking about worker retraining acknowledges economic dislocation which will occur upon ratification of NAFTA.

Mr. ROSS. That is correct. I think no one is saying that NAFTA will have no effect on the American economy. If it had no effect, there would presumably be no reason to do it. The net effect is to create more jobs than are lost, so it is a job winner. But some Americans in the process will in fact lose their jobs and have to find new ones, and that's the reason for wanting to make sure this is in place.

Mr. POMEROY. In order for there to be a net gain, doesn't that contemplate substantial new export activity to a Mexican consumer market?

Mr. ROSS. Yes, it does.

Mr. POMEROY. Do you believe there is a middle class present in Mexico sufficient to justify our faith in this newfound economic activity?

Mr. ROSS. I know at face value it doesn't seem logical, but in checking the numbers, the reality is there is and that we are, for the most part, not exporting to Mexico, where value is added and shipped back to the United States. Most of it is consumed in Mexico, and I'd be delighted, Mr. Chairman, to get the committee the numbers on that. There in fact is a growing market for American-produced goods such that now on a per capita basis, we are selling as much to Mexico as roughly Japan. So let me get you the figures, because that's the reason we're running a trade balance.

Mr. POMEROY. A peso devaluation would have some impact on the comparison of those figures, correct?

Mr. ROSS. Again, the simplest thing for me to do, I think, rather than go beyond—my time is so limited, I'd like to send you those figures.

[The information follows:]

The bulk of U.S. exports to Mexico is for consumption in the Mexican market, and not re-export to the United States. In the last 5 years, 83 percent of the growth in U.S. exports to Mexico was outside the maquila sector. In 1992, U.S. export to maquiladoras comprised 23 percent of the total U.S. exports to Mexico compared to 32 percent in 1987.

Even if U.S. exports to maquiladoras are not included, Mexico buys \$353 per capita from the United States, close to Japan's \$385.

Mr. POMEROY. Thank you very much. A final question. If the United States is to develop the high-end manufacturing processes, doesn't that also contemplate that Mexican productivity just isn't quite there, and doesn't in fact the recent demonstration with the Maquiladora plants, just as an example, show that in fact Mexican productivity can rival United States productivity while their wages are substantially below?

Mr. ROSS. I think you'll see if you look at where our real competition has been that it has come from the higher-wage countries that are able to do more sophisticated value added than the lower-wage countries that are able to run old mass production systems with some degree of efficiency. So we're seeing productivity increase everywhere in the developing world. It's actually a benefit to us. It allows people to buy more from us.

But the real competition has been Europe and the advanced countries of Asia. It hasn't been Mexico, it hasn't been other parts of Latin America or even the low-wage, low-skill areas of Asia. So I think our competition is with people with sophisticated infrastructure, all kinds of complex supplier relationships, the ability to do a great deal of customization and flexibility, and that does not, at this point, characterize the Mexican economy.

The CHAIRMAN. I apologize to the members. Mr. Ross, we're going to have to invite you back as promptly as possible.

Mr. ROSS. I would be pleased to return, Mr. Chairman.

The CHAIRMAN. We have not heard from the other witnesses yet, and we want to cover those areas also. So with my apologies to the

members, staff will be in touch with you as promptly as possible so that we might have you back for an extended visit with us.

Mr. ROSS. Thank you, Mr. Chairman. Thank you, members.

The CHAIRMAN. Thank you very much, and I apologize to the members.

We'll now go back to our other guests that we have: Mr. Banks, Mr. Manis, Mr. Medley, and Mr. Dykstra.

We'll hear from you at this time, Mr. Banks.

**STATEMENT OF SAMUEL H. BANKS, ACTING DEPUTY COMMISSIONER, CUSTOMS SERVICE, U.S. DEPARTMENT OF THE TREASURY, ACCOMPANIED BY MARITZA CASTRO, NAFTA TASK FORCE**

Mr. BANKS. Thank you, Mr. Chairman. I appreciate the opportunity to be here. Because I had the opportunity to appear before you on September 28 and 29, I'd just like to briefly recap my written testimony and submit that for the record.

The Customs Service was involved in the NAFTA negotiations. Our sole purpose of being involved in those negotiations was to ensure that the rules could be administered and enforced, and we think we accomplished that to a great extent. The NAFTA does provide for provisions that actually enhance our enforcement authorities and our capabilities.

Probably the two most important provisions in the agreement for our purposes are the certificate of origin that we receive from every manufacturer that exports into the United States and that fixes their legal liability, and the second provision is our ability is authorized to go down into Mexico and into Canada to do verification visits to ensure that the products are indeed products of North America. We are in the process of training our officers to ensure that we can fully administer this agreement, and we have built and are continuing to build automation systems to improve our targeting mechanisms and enforcement mechanisms.

The last thing I think I would like to say is that the cooperation between the various agencies that operate on the border and that are represented at this table is true cooperation between us. There are no turf issues between us. You were absolutely right in your opening statement, Mr. Chairman, in which you said that Customs doesn't do health issues. We don't check for sanitary-type issues. We act as a mechanism for the other agencies; as a border control mechanism for the other agencies. When they're interested in a particular product or something, we ensure it's held for them. We ensure that they get their opportunity to inspect it or do to lab analysis and the rest of these provisions. We have our enforcement authorities, but we also act as a control point for all the other agencies. To be quite candid with you, I believe it works quite well at this particular point.

So with that, Mr. Chairman, I'd like to conclude my verbal statement.

[The prepared statement of Mr. Banks appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. If you'll kindly remain with us for questions.

Mr. Manis, Import Inspection Division, USDA.

**STATEMENT OF MARK MANIS, DIRECTOR, IMPORT INSPECTION DIVISION, FOOD SAFETY AND INSPECTION SERVICE, U.S. DEPARTMENT OF AGRICULTURE**

Mr. MANIS. Mr. Chairman and members of the committee, I am pleased to have this opportunity to appear before you today to discuss the North American Free-Trade Agreement and its effects on the meat and poultry inspection activities of the Food Safety and Inspection Service should NAFTA be enacted.

FSIS ensures that domestic and imported meat and poultry products are safe, wholesome, and properly labeled. This responsibility is derived from the Federal Meat Inspection Act and the Poultry Products Inspection Act. There are no provisions in NAFTA that would compromise the level of protection to human health now provided for under the Federal Meat Inspection Act and the Poultry Products Inspection Act.

In 1992, the United States imported more than 2.5 billion pounds of meat, poultry, and meat and poultry products from 33 countries. To ensure the safety of imported meat and poultry for American consumers, FSIS maintains a comprehensive import inspection system. That system involves two major activities. The first is oversight to ensure that exporting countries have in place appropriate controls over their meat and poultry inspection systems. Such countries, one, must undergo a rigorous review process before they can become eligible to export meat and poultry to the United States; and, two, must receive periodic reviews by FSIS to maintain such eligibility. The second part is reinspection on a sample basis of meat and poultry products as they enter the United States. Reinspection is a check to make sure that the foreign country's inspection system is working. Seventy-eight import inspection personnel carry out import reinspection at 160 official import establishments in the United States.

The process for determining the eligibility of a foreign country to export meat and poultry to the United States is based on a systems approach. We focus on a country's overall inspection system as a means of ensuring consumer protection. Once a country becomes eligible, we conduct on-site reviews. The 20 Mexican meat plants that are now authorized to export products to the United States are reviewed each time we conduct a foreign country review. No Mexican poultry plants are authorized to export to the United States. In Canada, 608 meat and poultry plants are authorized to export products to the United States. Less than 200 of these eligible plants have shipped product to the United States in 1993. FSIS has selected 120 Canadian meat and poultry plants to be reviewed this year.

The FSIS border reinspection is directed by an automated system established in 1977. This system receives and stores daily reinspection results from all ports-of-entry and continuously updates compliance histories from every foreign establishment exporting to the United States. Based on a plant's history of compliance with inspection requirements, the nature of the product, and the size of the shipment, the automated system generates an inspection plan.

This system allows USDA to concentrate reinspection resources on plants that present the highest risk. However, USDA import inspectors are still required to examine each lot of product for gen-



eral condition, proper labeling, and proper certification. The inspection certificate, which must accompany each shipment of meat and poultry products offered for entry into the United States, certifies that the products comply with all U.S. inspection requirements.

Mexico is the second largest importer of United States meat exports and the third largest importer of United States poultry exports. Over 494 million pounds of meat and 285 million pounds of poultry were exported to Mexico in fiscal year 1992. Mexico exported 986,000 pounds of meat products to the United States in fiscal year 1992, and this represents less than 1 percent of all meat and poultry imports. We expect that current USDA resources can address any changes in the pattern of imports of meat and poultry.

Canada is the third largest market for United States meat exports and the fourth largest market for United States poultry exports. Over 258 million pounds of meat and 127 million pounds of poultry were exported to Canada in 1992. Canada exported over 750 million pounds of meat products and 9 million pounds of poultry products to the United States in 1992.

It is helpful to examine the impact of the United States-Canada Free-Trade Agreement, which took effect on January 1, 1989. That agreement called for the removal of trade restraints and set the stage for freer commerce between the two countries. While the United States-Canada Free-Trade Agreement encourages freer commerce in meat and poultry, it does not dictate inspection procedures to be followed. For example, in July of 1992, the United States and Canada agreed to implement several changes to strengthen their meat and poultry reinspection systems and make them more comparable to one another.

We believe that the North American Free-Trade Agreement would afford us the same degree of flexibility in our meat and poultry import program as has the United States-Canada Free-Trade Agreement. The health and safety quality standards for meat and poultry products will not be compromised under NAFTA, just as these standards were not compromised under the United States-Canada Free-Trade Agreement. We are confident that the import inspection system we have in place meets, and will continue to meet, the mission of FSIS to ensure that products are safe, wholesome, and accurately labeled.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions. Thank you.

[The prepared statement of Mr. Manis appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. If you'll just stay with us, we'll get the other witnesses.

Mr. Medley.

**STATEMENT OF TERRY MEDLEY, ACTING ASSOCIATE ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY B. GLEN LEE, DEPUTY ADMINISTRATOR, PLANT PROTECTION AND QUARANTINE; ALEX B. THIERMANN, DEPUTY ADMINISTRATOR, INTERNATIONAL SERVICES PROGRAM; AND GEORGE WINEGAR, ASSISTANT DEPUTY ADMINISTRATOR, VETERINARY SERVICES**

Mr. MEDLEY. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, we appreciate this opportunity to appear before you to discuss the North American Free-Trade Agreement and the Animal and Plant Health Inspection Service's role under NAFTA should it be enacted. I'd like to summarize briefly my written testimony and ask that the complete testimony be entered into the record.

If you would permit me, I would like to give you a brief overview of APHIS' mission. Our mission is to protect U.S. agriculture from pests and diseases that could seriously affect agricultural production and thereby affect distribution of agricultural goods to consumers in both interstate and foreign commerce. Some 26 existing laws give APHIS the broad authority to protect American animal and plant health. These authorities allow us to regulate interstate and foreign commerce; take measures to detect, suppress, control, or eradicate pests and diseases; cooperate in both domestic and international programs; take emergency actions against foreign pests and diseases; and conduct method development research. We have comprehensive and broad authority to achieve our mission.

Now let me briefly turn to NAFTA and how it might impact our mission. We do not believe that NAFTA will alter any of our quarantine laws or other requirements or that it will directly affect our rights to promulgate and enforce agricultural quarantines. Since this committee has asked for specifics and details, I have accompanying me today Mr. Glen Lee, who is the Deputy Administrator for our Plant Protection and Quarantine; Dr. Alex Thiermann, who heads up our International Services Program; and Dr. George Winegar, Assistant Deputy Administrator for Veterinary Services. We hope that we can fully answer all your questions, and if we can't provide immediate answers today, we'd be pleased if you would afford us an opportunity to provide those answers to the committee.

The U.S. Department of Agriculture is committed to the goals of NAFTA in fostering open trade between the United States, Canada, and Mexico. APHIS plays a key role in both facilitating trade and protecting the health of U.S. agriculture. We're committed to continuing our record of protecting American agriculture, improving production, and helping to expand export markets for healthy agricultural products.

We will also continue our dialog with Mexico and Canada through various forums which deal with animal and plant health issues. For example, the United States-Mexico Working Group on Plant Health meets to resolve vital sanitary issues specific to United States-Mexico trade. A parallel Animal Health Technical Working Group engages in bilateral discussions on animal health issues affecting United States-Mexico trade.

As mentioned earlier, one of APHIS' primary functions is to prevent the entry of foreign pests and diseases which pose a significant risk of harming U.S. crops and livestock. We carry out this function by regulating the importation of food, agricultural commodities, and other articles which may be hosts to harmful pests and diseases. About 1,500 APHIS inspectors work at various U.S. ports, international airports, and border crossings to inspect baggage and commercial shipments. These efforts also serve to protect our foreign markets, because a disease or pest introduction here could lead some countries to close their markets to us until we have demonstrated that the pest or disease situation is under control.

APHIS is satisfied that NAFTA provisions will advance U.S. export interests and preserve, not diminish, our ability to maintain import standards and requirements essential for protecting the health of U.S. agriculture. We have always tried to promote transparent, scientifically based regulations. This agreement commits the United States, Mexico, and Canada to such principles.

You've asked specifically what tools NAFTA provides. In one area, and I will call that regionalization, NAFTA puts us squarely on a path toward implementing regionalization or recognizing pest and disease free zones. APHIS believes that large countries, such as ours, where there are great differences in climatic, pest, and disease conditions, will benefit from regionalization. We do not want our trading partners to penalize entire industries by prohibiting our exports because of an outbreak of a disease or pest limited to a specific area or region.

APHIS is working with international standards organizations, such as the International Office of Epizootics and the International Plant Protection Convention, to develop an approach for effectively and safely implementing the regionalization concept. We need detailed criteria for assessing the capacity of other countries to accurately identify disease-free and pest-free areas and to assure that the integrity of disease-free and pest-free areas is adequately maintained.

The concept of regionalization is an international reality. Countries like the United States, with strong surveillance and monitoring systems, advanced diagnostic tools, and permanent animal and plant health infrastructures, should gain from regionalization and be more competitive in global markets.

Another important aspect of NAFTA is the dispute settlement mechanism. Under NAFTA we believe that some of our border problems will diminish. The agreement formally recognizes the commitment of Mexico, Canada, and the United States to science-based sanitary and phytosanitary regulations and internationally approved risk assessment procedures. Also, the agreement contains procedures for solving disputes that may arise over what are believed to be unfair sanitary and phytosanitary requirements. The dispute settlement mechanism in NAFTA should reduce trade disruptions and give us an effective way to appeal and change unfair regulatory practices.

We appreciate, Mr. Chairman, your effort and support in formulating the dispute settlement mechanism and believe it is a necessary and workable strategy of NAFTA.

With regard to the rules of origin. Under NAFTA, a product is said to originate in the free-trade area where it is grown, harvested, wholly produced, or substantially transformed in the free-trade area. Substantially transformed generally occurs when processing shifts a product from one chapter of tariff classification to another. Products from Mexico or Canada must be accompanied by a certificate of origin which states that the products originated in the free-trade area. Agricultural commodities shipped from Mexico and Canada are accompanied by an international phytosanitary certificate and certificate of origin.

The APHIS inspectors will inspect these as well as other shipping documents, such as invoices and bills of lading, to determine origin. If irregularities are detected or if the inspectors have doubts about origin, APHIS will hold the commodities until the shipper provides evidence showing that the shipment complies with all the laws and regulations administered by APHIS. APHIS and Customs also have a system to scrutinize shipment of commodities by importers who have attempted to illegally import agricultural commodities in the past.

NAFTA, as drafted, contains significant requirements which address sanitary and phytosanitary requirements. We believe that NAFTA, with its science-based regulations, should also strengthen animal and plant health infrastructures, resulting in safe trade in agricultural commodities.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Medley appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much for being here.

Mr. Dykstra, Food and Drug Administration.

**STATEMENT OF GARY J. DYKSTRA, DEPUTY ASSOCIATE COMMISSIONER, REGULATORY AFFAIRS, FOOD AND DRUG ADMINISTRATION, PUBLIC HEALTH SERVICE, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY WALTER BATTS, DIRECTOR, INTERNATIONAL AFFAIRS STAFF; LEROY GOMEZ, DIRECTOR, SOUTHWEST REGION; AND LINDA R. HORTON, DIRECTOR, INTERNATIONAL POLICY STAFF**

Mr. DYKSTRA. Good morning, Mr. Chairman. I, too, have a formal statement which I will submit for the record. I'll just summarize it this morning.

The CHAIRMAN. Without objection, your prepared statement will appear in the record. You may proceed.

Mr. DYKSTRA. Thank you.

I appreciate the opportunity to discuss the Food and Drug Administration's enforcement procedures at the border and how these procedures may be affected by the North American Free-Trade Agreement. Accompanying me today are Mr. Leroy Gomez, Director of FDA's Southwest region; Mr. Walter Batts, Director of FDA's International Affairs Staff; and Ms. Linda Horton, who is Director of FDA's International Policy Staff.

As you know, Mr. Chairman, the mission of the FDA is to enforce the Federal Food, Drug, and Cosmetic Act and other laws which are designed to protect consumers' health, safety, and pocketbook.

NAFTA will in no way adversely affect FDA's ability to accomplish this mission. This agreement does not change or in any way diminish FDA's responsibility to enforce the law, nor does it in any way affect our authority under the Food, Drug, and Cosmetic Act or our ability to enforce that act. Should NAFTA be ratified, FDA expects to continue its present border enforcement activities with little or no change.

You need to know that our working relationship with the Mexican and Canadian Governments is currently excellent, and we would anticipate that NAFTA would result in an even better cooperative environment. We work with the Mexican Government and Mexico's agricultural and pesticide industries to exchange information on FDA's regulatory system. We also have routine border conferences with Mexican Government officials to discuss matters of mutual interest. For example, during the past fiscal year, we held eight formal meetings with Mexican Government officials to discuss a variety of enforcement topics, including, but not limited to, pesticide issues, health fraud, biologics and drugs, both human and veterinary.

Our coordination efforts with the Mexican Government are excellent, based on a frequent exchange of ideas and information. Indeed, we actually talk to the Mexican Government officials on a daily basis. These efforts at increased coordination will continue, and I believe will grow, whether or not NAFTA is ratified. I personally have been involved in most of these meetings and discussions.

In 1988 FDA entered into a memorandum of understanding with the Mexican Ministry of Agriculture. The MOU addresses technical cooperation in the area of pesticide use and monitoring and establishes avenues of communication between the designated regulatory units of both countries. We are also working with the Mexican Government to assist in Mexico's laboratory testing programs and to solve problems arising from illegal pesticide residues in Mexican produce.

In conjunction with the Environmental Protection Agency, we are working with the Mexican Government to minimize differences involving our two countries' pesticide tolerances. This project will take time, but we believe it will prove to be an effective way to assure the safety of imported Mexican produce. This project demonstrates Mexico's commitment to bring their pesticide program into line with the United States' requirements and shows the spirit of cooperation that characterizes our working relationship with Mexico in recent years. Indeed, the Mexican Government has responded positively to all pesticide tolerance violation situations.

We understand, Mr. Chairman, that you would like to see within NAFTA a committee which would specifically handle pesticide issues. We believe that we already have mechanisms in place to handle these issues; however, we would not oppose such a committee.

While the effects of NAFTA cannot be predicted with certainty, we at FDA believe that it could benefit our border enforcement activities. We expect that NAFTA will stimulate higher levels of commitment on the part of the Mexican Government and industry to solve regulatory problems that would occur under the no-NAFTA scenario. Moreover, it may promote the development in Mexico of systems and criteria similar to those established in the United

States. In the long term, this would benefit U.S. consumers by providing added assurance that products imported from Mexico meet our standards.

In summary, NAFTA will not affect the ability of the FDA to ensure the safety of products we regulate. FDA intends to continue its border enforcement activities should NAFTA be ratified. Indeed, we have every reason to believe that ratification of NAFTA will result in an increased effort to harmonize standards on the part of the Mexican Government and industry. This increased effort will only enhance the joint efforts currently underway to assure the safety of Mexican imports.

That concludes my summary, Mr. Chairman.

[The prepared statement of Mr. Dykstra appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Since we had started on the time of arrival, some of the members did not realize that we had not heard from these witnesses. So to expedite the process, I think it would be fair just to go from right to left. We'll try 2 minutes. If not, we'll—maybe we'll just go on 5 minutes. I think we have time on that.

Mr. Roberts left a couple of questions and a statement that he would like for me to make.

One is that we find that there is so much misinformation and so much misconception, erroneous perception, and it is extremely unfortunate that there are some manufactured issues. One of them is the question of DDT. There has been some question raised about DDT. Apparently, this has been to the point that GAO has made a study, and according to the Government Accounting Office, the Mexican Government is still authorized to use DDT in southern Mexico to control mosquitoes that carry malaria. The GAO has found no reason for concern that this usage would affect food for export to the United States, but under NAFTA, could Mexico export to the United States agricultural products which have been grown using pesticides banned in this country?

From FDA, Mr. Dykstra.

Mr. DYKSTRA. Yes, Mr. Chairman. The answer to that question is obviously no. DDT is a banned pesticide in this country. We do monitor for it, and we find it very infrequently, which indicates that it is being controlled well within Mexico.

The CHAIRMAN. There is some misinformation that Mexico allows 58 pesticides banned in the United States. Again, the GAO has found that there are 58 pesticides out of the hundreds where Mexico and the United States have set different tolerances or where there is a tolerance for a given crop in one country but not the other. But the study has found that there are only six pesticides—only six—out of the thousands where Mexico has established tolerance on products exported to the United States when we have no tolerance on those six. How do you handle a situation like that?

Mr. DYKSTRA. Mr. Chairman, we monitor very closely for those pesticides, but as I indicated in my summary, we have an ongoing project with the Mexican Government right now intended to equalize our tolerance standards from the United States to Mexico. It's been described as a four-step process, and we are working with the

EPA on that process, and we are at the third stage of that process with the Mexican Government.

That stage is basically that the Mexican Government, because of their needs in Mexico, have identified certain pesticides that they believe are still necessary in Mexico to economically grow certain crops. They have submitted that list to FDA and EPA, and we are currently examining that list to see, one, if there might be alternatives to those pesticides; and, two, EPA is looking closely at that list to see if there is any opportunity for EPA to establish tolerances for those pesticides.

I know EPA has someone here today and may want to respond further to that question.

The CHAIRMAN. Could we hear from Mr. Vic Kimm, Acting Assistant Administrator, Pesticides and Toxic Substances, EPA. Would you kindly join us at the table, and if you might add to what Mr. Dykstra told us.

Mr. KIMM. Thank you, Mr. Chairman. I do not have a prepared statement, I am just here to answer questions. I think that he has pretty well covered it. The tolerances that exist in the United States control what can legally come across the border. So, in circumstances where the Mexicans may have registered a pesticide and set a tolerance presumably for their domestic consumption, that wouldn't impact what we would allow into the United States. But as Gary has pointed out, we have a fairly focused effort to try to look at these lists of specific pesticides where there are differences and see if we can rationalize and eliminate the number of such circumstances.

The CHAIRMAN. Thank you. Well, that was one of my strongest suggestions to the negotiators, that regardless of NAFTA—long before NAFTA—we needed to harmonize to the extent possible between United States, Canada, and Mexico. Actually, it's a beginning process that you're involved in, but I felt that as part of NAFTA they should establish a protocol for harmonizing so you don't have to be worrying and/or so you can cut out all of this irresponsible accusations, "They're shipping this" or "They're shipping that." So it probably can still be done.

Let me ask one more question for Mr. Roberts. He says that he had heard some comments that NAFTA will allow Mexico and/or Canada to overturn or overrule our domestic food safety laws. Is that anywhere near where it should have some credible answer?

Mr. DYKSTRA. Mr. Chairman, my understanding of the NAFTA agreement—and there may be other experts here in the room—is that it does not overturn any of our standards or our laws or regulations.

The CHAIRMAN. Mr. Kimm.

Mr. KIMM. I would go beyond that and say there are very specific provisions in the agreement itself recognizing each participating country's ability to set and maintain standards, even where those are higher than international standards. So there was very great care as this document was drafted to ensure that it did not in any way undermine our regulatory systems.

The CHAIRMAN. Mr. Roberts' time has expired. [Laughter.]

We'll go to Mr. Gunderson.

Mr. GUNDERSON. Mr. Chairman, I learned something this morning. In the future, I'm going to submit my questions in writing to you. That seems to be pretty effective.

Thank you, and thank you all for being here. I've reviewed your statements. I want to focus on a particular area, and I think, Mr. Dykstra, you're the one that's going to have to help me on this, because you, in Food and Drug Administration, I believe, would have authority over the dairy industry in regard to imports of dairy products. Is that correct?

Mr. DYKSTRA. That's correct.

Mr. GUNDERSON. OK. We've heard a little criticism from the dairy industry about NAFTA, but one of the things that is brought up by some of the critics is that the sanitary standards of dairy processors in Mexico are significantly inferior to our American plants, and they believe that the large quantities of poor-quality dairy products, specifically cheese, that could or would be produced in Mexico will, under NAFTA, be entering the United States and, when consumed, will cause American consumers to discontinue purchasing any dairy products, regardless of their source.

Accordingly, I'd like to ask you some questions. Will you be able to identify specifically where a dairy product is manufactured? In other words, if there is cheese, will it say whether this cheese was produced in California, Texas, Wisconsin, Mexico, or will there be an ability to have a rather generic indication of where it's produced?

Mr. DYKSTRA. I think as Mr. Banks indicated, Customs will assure that we know what the origin of that particular dairy product is, and if it is a product of Mexico, we will, as we are doing even today, assure that those products meet the standards of the Food and Drug Administration, the standards of the United States. In no way does NAFTA diminish our ability to do that. We will continue to do that.

Mr. GUNDERSON. Well, when we talk about meeting the standards of the United States, we don't talk about sanitary standards in the production or manufacturing of that product, do we?

Mr. DYKSTRA. No, we don't. We do not have the ability to go into Mexico and enforce those kinds of standards. An additional point that you need to know about is we are working with the Mexicans concerning their milk industry and doing what we can to provide them with information and other things to upgrade what's happening in their milk industry today.

Mr. GUNDERSON. So there is a potential that a product could be produced in a significantly lower standard of sanitary conditions in Mexico and still be imported into this country?

Mr. DYKSTRA. That's a possibility, but, again, we look at those products very carefully when they're presented for import into this country, and, if appropriate, we sample it, we analyze it, and we look for the things that we would typically expect to find in dairy products whether they come from Mexico or some other part of the world.

Mr. GUNDERSON. Let's talk about that. You've got a dairy product produced in Mexico, they're trying to ship it into the United States, they're at the port of entry. Exactly what kind of inspection would



you do? How much of the product is inspected? Do you have adequate resources to truly look at that?

Mr. DYKSTRA. Well, we have a system of import inspection which has our inspectors at the border working with Customs, identifying the products when they come over the border. Dairy products in particular are being looked at today, whether they come from Mexico or any other part of the world, for such things as listeria contamination, which is a big problem right now in dairy products. So we look at dairy products pretty closely within those parameters. We pick up samples routinely for pesticide analysis and for other contaminants.

Mr. GUNDERSON. What percent of the product is inspected today?

Mr. DYKSTRA. I would have to submit that to your office, Congressman, but I could do that.

Mr. GUNDERSON. I have been told, and correct me if I'm wrong, that if you detect that company A is trying to export into this country a contaminated product, that that would result in all of their product in the future being inspected. Is that correct or not?

Mr. DYKSTRA. We have a system which we call automatic detention, and particularly for pesticide-contaminated products, if a shipper or a manufacturer is discovered with product that violates our standards for pesticides, after one violation they can be put on our automatic detention list, which means that future shipments will be automatically detained without analysis. The burden is on them to prove that that shipment is free from pesticide contamination or some other contamination, if that's the case.

Mr. GUNDERSON. In a typical given year, can you imagine a scenario where any company's production of dairy products would not be inspected at least once?

Mr. DYKSTRA. That would be hard to predict, but because we do pay close attention to dairy products, I would think that unless they were a very small shipper and sent very few shipments across, we would probably catch them at least once.

Mr. GUNDERSON. All right. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I think this brings up, if I might briefly, either Mr. Banks or Mr. Dykstra, to your knowledge, is there any—because there's confusion out there. Do we get any fluid milk in from Mexico?

Mr. BANKS. I don't know the answer to that.

Mr. DYKSTRA. I don't know the answer, either. We'd have to submit that to your office.

The CHAIRMAN. Well, at the border where I live, they come from Mexico to buy it on our side. And they have maybe two specialty cheeses that are used in enchiladas and so on. We're having a problem now with something called cajeta, which is sort of a goat milk you put on ice cream and so on. You're not letting that come in at this point. So I share the concern of my colleague, but I don't see any dairy products coming from Mexico, but the reverse—that they come and buy the Wisconsin cheeses on our side, they buy the milk on our side, they buy the bread on our side, and they buy the vegetables on our side. Now, I don't know about the interior, but that's what we see happening at the border.

We'll go to Mr. Glickman. Do you have questions?

Mr. GLICKMAN. No questions, Mr. Chairman.

The CHAIRMAN. Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

I'm reminded quite often of the late Will Rogers' quote when he said, "It ain't people's ignorance that bothers me so much as them knowing so much that ain't so that is the problem," and I think that probably this debate and this discussion encompasses more of that on both sides than any one issue.

One of the questions I'd like to submit to Mr. Ross would have been, since we were talking about job losses, I have not seen job losses as a result of trade with Mexico. I've seen just the opposite. There have been net job increases. The concern is the future. But what if NAFTA is defeated and what if GATT is defeated? Then what's the estimate of the job losses in the United States—that's a question that I would like to have seen—if we go the protectionist route, as some would apparently want us to do?

My question, though, Mr. Banks, I've seen some figures, and I want to confirm this. If we drop oil and automobiles from our imports, do we have a trade surplus with the rest of the world?

Mr. BANKS. Oh, boy.

Mr. STENHOLM. Check those figures and submit it for the record. I'd like to have it personally as much for the record. But it's my understanding that's true, that if we would drop the numbers of imported oil and imported automobiles, that the United States has a net trade surplus with the rest of the world.

Mr. BANKS. There's no question, Congressman, those are very big factors. You might have to look at automobiles as well.

Mr. STENHOLM. I said automobiles and oil.

Mr. BANKS. Fine.

[The information follows:]

Trade Figures  
Based on 1992 Figures

EXPORT .....	447,471,001,000
IMPORT .....	524,371,400,000
Deficit	-76,900,399,000
IMPORTATION OF	
OIL .....	38,103,794,000
AND	
AUTOMOBILES .....	46,012,636,000
TOTAL AUTO AND OIL .....	84,116,430,000

Thus if Oil and Auto's were NOT imported the following figures would apply:

EXPORT .....	447,471,001,000
IMPORT (minus auto & oil)....	440,254,970,000
Surplus	7,225,031,000

Mr. STENHOLM. If you ignored those numbers, the rest of U.S. business and working men and women are doing a pretty good job competing. Therefore, we've got some problems in those two areas.

Now, my specific question dealing with the subject at hand, it's my understanding, Mr. Dykstra, and I believe you have in your testimony currently, as we're inspecting food that comes from Mexico, we are not finding significant problems with the quality of food that is coming in from Mexico today under our current system. Is that not correct?

Mr. DYKSTRA. That's correct. The violation rates as compared with the rest of the world are not significantly different for Mexico.

Mr. STENHOLM. Is the same true for what little meat is entering into this country?

Mr. MANIS. That's correct, Congressman Stenholm. It's very low.

Mr. STENHOLM. All right. Another speech mechanism that I've been using in dealing with food safety subjects, since this is an area of extreme interest right here in the United States as we're trying now in the subcommittee I chair to rewrite our own pesticide rules and bring them more into the 1990's, I have been saying that if you took the United States food safety standards today and what we do to protect our consumers, we're probably at an 8 on a 1 to 10 scale. Mexico is probably at a one or a two. Mexico is moving up fast.

Now, with your information that you have and the fact that you have been down looking at what Mexico has been doing over the last 5 years, what they're proposing to do, am I off? Am I wrong? Should I improve my own speeches? In what way?

Mr. DYKSTRA. Congressman, I'll take a stab at that from Food and Drug's perspective, because I have been down to Mexico on a number of occasions, dealing with the Mexican health officials on almost a daily basis. Your characterization, I think, is fairly accurate, although I think the Mexicans themselves would say they're probably much above a one or a two, and I think they are improving. They still have, and I think they would admit to, some difficulties in their infrastructure, their enforcement mechanisms. They recognize those deficiencies, and they are working very hard to shore them up.

Mr. STENHOLM. We have people today that want us to spend hundreds of millions, if not billions, of dollars bringing our 8 up to an 8.1, and this is a debate that we have to enter into, the question of whether we can afford that, whether the additional safety that we bring, the risk-benefit ratio to the consumer, is worth it. I think this is a debate that needs to be joined. The results of what we're finding indicate that Mexico perhaps should be a little higher than a one or a two. The results are that the food coming in is not an unsafe condition. That's the result.

The final question I want to ask is regarding the current TB problem that we have right now in which we have seen an alarming increase in the rate of TB in livestock as well as humans. What's happened lately? I know we've been working on this. I know there's a lot of cooperation between domestic cattle producers and Mexican cattle producers. Could you give us a little bit of an update and maybe what else needs to happen?

Mr. MEDLEY. Thank you, Congressman. I'd like to have Dr. George Winegar, who's been directly working on that with the TB program, give you the specifics on that, please.

The CHAIRMAN. Will you kindly take a seat at the witness table. Thank you very much.

Mr. WINEGAR. Congressman, there has been an increase in the amount of TB that we've found in the United States, and as far as the rate related to the number of animals imported, it has not increased in rate. Last year we found 680-some animals at slaughter that had tuberculous lesions, and approximately 80 percent of those that we could trace to origin were from Mexico. But if you look at the numbers of animals that we've been importing, the rate has not been going up in numbers that we find in relation to what we've been importing. So I don't think that it's an indication that the TB situation in Mexico is getting worse, and they are working on a program to improve their detection and elimination of tuberculosis in the animals that are being exported.

We've proposed some new rules just recently that are out for comment on requiring stiffer identification of the animals that are coming in so that we can trace those to the Mexican source, and the Mexican animal health people can do a better job of identifying the herds and eliminating those pockets of infection. We're working with the Mexicans on a regular basis, and we're working with the U.S. Animal Health Association in trying to determine ways that we can improve the system of eliminating the TB that's coming in from south of the border.

Mr. STENHOLM. Are you satisfied with the cooperation you're getting on both sides of the border?

Mr. WINEGAR. We're getting a lot of cooperation, yes.

Mr. STENHOLM. Are you satisfied with the level?

Mr. WINEGAR. Yes. They're making an effort, because they want our market as much as we want their animals.

Mr. STENHOLM. Thank you.

The CHAIRMAN. Mr. Smith.

Mr. SMITH of Oregon. Mr. Chairman, Congressman Canady has a statement he'd like to submit for the record and questions.

Following the discussion that my friend from Texas, Mr. Stenholm, had with you regarding the very low violations, it's estimated that 70 percent of the purchases by Mexico of all products are purchases from the United States. So if we enact NAFTA, we wouldn't expect 100 percent of purchases, but surely they would go up. My point is, if we had 90 percent purchases of Canada, could you expect there would be very low violations on the border with 90 percent?

Mr. DYKSTRA. Again, as I stated earlier, the Mexicans are working very hard to reduce the violative rate and the detentions that we're seeing right now at the border, and I think even without NAFTA, that effort will continue. My belief is that the violative rate will continue to decline.

Mr. SMITH of Oregon. All right. Even with additional volume of business?

Mr. DYKSTRA. Even with additional volume of business.

Mr. SMITH of Oregon. All right. Thank you.

Mr. Banks, on this question of origin of commodities, tell me, today does this country have authority to go into Mexico with Customs agents to determine the origin of commercial and agricultural products?

Mr. BANKS. We have no specific authority to do so, Congressman.

Mr. SMITH of Oregon. All right. The point, then, is if NAFTA is indeed ratified, it would surely ensure the fact that Mexican cattle, for instance, would have to be born and raised in Mexico, not in Argentina, which they could be today. Is that correct?

Mr. BANKS. That's correct, sir. That's some of the things that we would do to determine origin.

Mr. SMITH of Oregon. So if Mexico today is buying 70 percent of everything they purchase from foreign countries from us, this would surely be an additional protection for American consumers regarding the origin of those products. Is that a fair statement?

Mr. BANKS. We think the NAFTA provisions provide a significant enhancement to our enforcement capabilities, yes, sir.

Mr. SMITH of Oregon. We talked about entry points earlier, Mr. Banks, and I want to know again, just to reiterate, I understand there are about, as you said, seven points of entry where bulk commodities could be brought across the border from Mexico into the United States. Is that correct?

Mr. BANKS. Seven major commercial crossings, yes, sir.

Mr. SMITH of Oregon. So I assume Canada might have 100 or more.

Mr. BANKS. Canada actually has about 28 major commercial crossings.

Mr. SMITH of Oregon. So there are fewer opportunities in Mexico than in Canada and fewer inspection points; therefore, you ought to better man them. How many Customs agents do you have on the border?

Mr. BANKS. Right now we have over 1,500 inspectors. It's actually 1,573 uniformed officers doing inspections. We have 100 trade specialists, what we call import specialists, and we have 440 special agents along that border.

Mr. SMITH of Oregon. So we have almost 2,000 people there.

Mr. BANKS. Yes, sir.

Mr. SMITH of Oregon. How many inspectors does APHIS have on the border? And then be prepared as I go along, I want to find out from each of your organizations which—

Mr. BANKS. By the way, sir, we only have 960 inspectors on the northern border. So we have quite a few less on the northern border.

Mr. SMITH of Oregon. Thank you.

Mr. MEDLEY. We have a total of 316 inspectors on the Mexican border, Congressman.

Mr. SMITH of Oregon. And in meat and poultry?

Mr. MANIS. In terms of meat and poultry, we devote less than one full staff year to inspection of meat coming in from Mexico, because the level is so low.

Mr. SMITH of Oregon. You have one?

Mr. MANIS. Well, it's actually a little bit less than one full staff year, Congressman.

Mr. SMITH of Oregon. Food and Drug?

Mr. DYKSTRA. Food and Drug has 14 or 15 people stationed at the border.

Mr. SMITH of Oregon. So it looks like to me we've got about 2,300 people on the border. That must get crowded at those seven spots. If I drive a truck there, do five people come down on me—one from Food and Drug, one from Customs, one from APHIS, one from meat and poultry? I'm frightened to death now. What happens here?

Mr. BANKS. We like to keep them frightened to death, but that's not exactly the way it works. Actually, that is the role of Customs, especially for commercial cargo, to act as the checkpoint for this effort, and we have products that we refer to the other agencies.

Mr. SMITH of Oregon. Do you cross inspect?

Mr. BANKS. We can, yes, sir. It could happen. We could also inspect for narcotics. Or we could inspect for some other origin determination, whereas the other agency's concerned about meat safety. What we try to do is we do our piece of the inspection process, but we make sure that if they have a particular interest in a product, that we hold it for them as well.

Mr. SMITH of Oregon. Are there any other agencies that have inspectors there that are not at this table that you know about?

Mr. BANKS. Probably so. We actually represent almost 40 to 60 agencies, depending on how you count it, at the borders. Fish and wildlife is a very big issue on the border as well.

Mr. SMITH of Oregon. Well, Mr. Banks, would you come back to me with the number of inspectors of products coming across from Mexico from all agencies? I know it's not your job, but could you do that for me?

Mr. BANKS. We can sure give it a try, yes, sir.

[The information follows:]

CUSTOMS OFFICERS: 2,113.

FISH AND WILDLIFE SERVICE: 4 (APPROXIMATELY).

FOOD AND DRUG: 14 (APPROXIMATELY).

MEAT AND POULTRY: 1 (APPROXIMATELY).

APHIS: 310-316 (APPROXIMATELY).

Mr. SMITH of Oregon. It sounds like we've populated the Southwest. [Laughter.]

The CHAIRMAN. I thank the gentleman.

The gentleman from Texas, Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr. Chairman.

My friend from Oregon, I guess that meat inspector must really be a short person if we only have part of one. [Laughter.]

Mr. Banks, could you convince me that if NAFTA passes that we won't see an increase of drugs coming into this country?

Mr. BANKS. I don't know if I can convince you that you're not going to see an increase in drugs, because the drug issue is going to exist with or without NAFTA. Do we think that the drug problem will increase because of NAFTA? No, sir. We're seeing huge increases in the amount of commercial traffic that crosses that border today, and we've got narcotics problems. We're dealing with those issues.

There's really not a connection on this thing. We don't necessarily see the increases in the amount of traffic leading to significant rises in the amounts of drugs. The drug trade moves completely independently of the commercial traffic, although I'm not

saying it doesn't try to conceal itself within, but to be honest with you, from law enforcement perspective, we don't see that correlation at all.

Mr. SARPALIUS. So all the theory or the argument is that if we free up our borders, you anticipate there would be more products leaving this country, going into Mexico, than products in Mexico coming into this country?

Mr. BANKS. No, sir. In the concept of freeing up the borders, what we're actually doing is freeing the tariff rates. There are still going to be inspections. We're not going to reduce the number of people down there checking. We've got the National Guard actually comes alongside boosting those employment levels to check for narcotics. This does not change our inspection process whatsoever, either for commercial purposes or for narcotics purposes. NAFTA just affects the tariff rates.

Mr. SARPALIUS. I'm sure you're aware that's a concern that many people have on NAFTA.

Mr. BANKS. Sure. I'd like to make another point on that, Congressman. Whereas we've had difficulties in past years in working with the Mexicans on narcotics, I've got to tell you that the level of cooperation that currently exists today is phenomenal. Maybe it's because of their greater dependence on the economy, these economic issues between our country, but the level of cooperation that we're getting from the Mexican authorities to enforce the narcotics rules is significantly better over the last 3 to 4 years. I mean significantly.

Mr. SARPALIUS. Let me follow up on the certificates of origin. The argument many people have against NAFTA is, what assurances will we have that those certificates of origin are original and that we won't be opening the door for other countries to back-door their products into this country? Tell me what procedures you do to justify those certificates of origin that they are original.

Mr. BANKS. Well, the first thing that has to happen is they have to come in with a signature from the manufacturer. They've got to have an original document in this process from either the manufacturer or the exporter, and actually it can even trace back if they buy other products in Mexico. Each one has to have an original signature on it. By the way, that places them under certain legal liabilities in order to import, and if we find violations on that, we can just deny preference, and I mean for the future as well.

Second, the U.S. importers have to file those certificates of origin with their entries, and they've got to certify that these are actual true, accurate copies. Third, the NAFTA provides authority for verification visits so that we can actually go down to the plants. This was provided for, to a certain extent, under the Canadian Free-Trade Agreement, and last year we made over 700 plant visits to check on Canadian products. We have the same authority to go in and check on Mexican manufacturers, Mexican exporters, and we absolutely intend to do so.

We validate not only the certificate, but everything that backs up the certificate. We've got the authority to send in auditors to look through all the books and records of those companies. We've got the authority to send in our commodity specialists so that they ensure



that these rules of origin, these tariff shifts that are required, are indeed done in fact.

Mr. SARPALIUS. If NAFTA is successful in passing, what will be the biggest problem that you will face?

Mr. BANKS. Probably the biggest problem that we face is this will be a whole new series of rules as to how origin is determined. It's a technical issue. Educating the trade community on exactly how those rules are done and educating our own people is a major undertaking. I think having them voluntarily comply with the rules, understand the rules, is probably the biggest job that we've got. We think we have a lot of the enforcement to look for the real bad guys. The thing that will drive us crazy are the people that make dumb mistakes, and that's probably one of the biggest jobs that we have to eliminate.

The CHAIRMAN. The time of the gentleman has expired.

The gentleman from Virginia.

Mr. GOODLATTE. Thank you, Mr. Chairman.

One of the issues that comes up frequently with my constituents regarding the North American Free-Trade Agreement is the issue of sovereignty. I know that the panel has had an exchange with the chairman regarding our policy of enforcement of pesticide tolerances on food entering our Nation, but I want to make sure that I have a clear understanding of what the policy changes, if any, under NAFTA will be. Will this agreement lower our Nation's standards to allow food into our Nation that does not meet our standards, Mr. Dykstra?

Mr. DYKSTRA. Congressman, as I stated earlier, the NAFTA agreement in no way diminishes or lowers our standards for food safety. We will be enforcing the same standards. It will be business at the border.

Mr. GOODLATTE. Is there anything in any of the side agreements that have been negotiated that is going to give the authority to determine what those standards would be to any trilateral panel that would supersede the authority of the U.S. Congress or any State legislature?

Mr. DYKSTRA. As far as we know, there have been no side agreements to that effect.

Mr. GOODLATTE. And what would be the mechanism for handling any dispute with Mexico regarding whether or not a particular pesticide would be unacceptable based on our current law and our current standards?

Mr. DYKSTRA. Generally, as we do now, we talk with the Mexicans and have had pretty good success in resolving in an informal way all of our disputes concerning pesticides. If NAFTA is ratified, there is a mechanism in NAFTA for dispute resolution, and if that happens, scientific experts are called in. There is a mechanism to do that. We wouldn't anticipate that that would happen very often.

Mr. GOODLATTE. But no one would have the authority to say that laws and regulations that we have in place in this country would be superseded who was not a part of our Government?

Mr. DYKSTRA. That's correct.

Mr. GOODLATTE. Thank you.

One of the other questions that comes up is whether you'll be able to handle any increased volume that comes from NAFTA.

Frankly, our tariffs are so low right now that I don't see a tremendous increase in imports coming in from Mexico. I can see a significant increase going the other way. But given the army that you described for Congressman Smith a little while ago, do you think you're—let me ask you collectively. Are you capable of handling any increase? Is it going to reduce the percentage of inspections that you make relative to the volume of products coming in? Maybe I should direct that to Mr. Medley.

Mr. MEDLEY. Congressman, I don't see where it would cause us any problem from a resource standpoint. We do expect that those products that currently meet our sanitary and phytosanitary requirement, there might be some increase in those commodities. Not in new commodities that have not met our sanitary and phytosanitary requirements, therefore, we believe that the current inspectors we have can meet those.

Mr. GOODLATTE. And are you satisfied that we are not going to confront any increased amount of product that's coming into this country that is not inspected?

Mr. MEDLEY. Yes, sir, we are. I think that in addition to the certificates of origin documentation, our agency also has inspectors that are in Mexico at certain areas where they treat commodities coming to the United States. We call these preclearance activities. We also go into areas that have been certified as free to allow exports. So I think we have significant involvement to assure that.

Mr. GOODLATTE. Mr. Manis, would you have anything to add to that?

Mr. MANIS. Our system of reviewing Mexico, and approving plants, and going to Mexico to conduct reviews, and at the border would remain the same. In effect, regardless of NAFTA, our level of scrutiny will not change. Therefore, we don't anticipate a great change. Further, over a long period of time, the level of meat coming into the United States has maintained at a very steady total amount, so what we would do is shift resources. So we do not foresee, one, more product coming in; and, two, a lessening of our standards and protection.

Mr. GOODLATTE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Pomeroy.

Mr. POMEROY. I may have not correctly understood the earlier discussion on bovine tuberculosis, but if I heard correctly, I heard an expression of satisfaction that the rate of infected cattle coming into this country had not increased. Is that a correct summary?

Mr. WINEGAR. If you relate it to the number of animals coming in. The number has gone up—

Mr. POMEROY. Back where I'm from, we're not, I guess, maybe that much for statistics. We care about infected cattle, and we see that in 1988 there were 70, and last year there were 613, more than two-thirds of them linked to Mexico. Now, the fact that more healthy cattle came in from Mexico than in 1988 really is of small consolation when we see in fact a substantial new number of infected cattle coming into this country, which is undeniably what has happened. Isn't that correct?

Mr. WINEGAR. There's been an increase in the numbers coming in, yes.

Mr. POMEROY. Now, it's my understanding that every single head of cattle that comes into the United States is TB tested in Mexico. Is that your understanding?

Mr. WINEGAR. That's our understanding, and—

Mr. POMEROY. Well, then, something is terribly wrong, isn't it, in terms of Mexico TB testing? Because we have gone from 70 cattle in 1988 with this infliction to 613, most of whom are related to Mexico last year. So their testing isn't 100 percent reliable, is it?

Mr. WINEGAR. It has not been, but there are limitations to the tuberculosis test regardless of where that test is conducted, whether it's in the United States or whether it's in Mexico.

Mr. POMEROY. Our own testing isn't perfect, either, but in fact you do acknowledge that better than two-thirds of these newly infected cattle come from Mexico?

Mr. WINEGAR. Yes.

Mr. POMEROY. Now, my State incurred better than \$2 million in 1988 trying to deal with this problem, and at some considerable expense and effort we have established a tuberculosis-free State for our cattle. We in fact have embarked upon a new level of testing activity as an undertaking of the State government. Would this be allowed under NAFTA? Will State inspection activities for State standards be allowed under NAFTA?

Mr. WINEGAR. I don't see any reason that it would not be.

Mr. POMEROY. You don't see that it might be raised by Mexican authorities as an interference with international trade?

The CHAIRMAN. Would the gentleman yield on this point?

Mr. POMEROY. Sure.

The CHAIRMAN. Doctor, would you inform us at what stage are the proposed regulations? When will they be published, and what do they entail?

Mr. WINEGAR. There is a proposal out at the moment for public comment for a new extra identification system for cattle from Mexico. The other dockets are in the drafting stage at the moment that would possibly increase the amount of testing that is done in Mexico and the different types of certification. Those are based upon recommendations from the U.S. Animal Health Association at its meeting last year. The same subject is going to come up again this year, in the last week of this month, at its annual meeting. Mexico will be discussing what they've been doing. There's a little bit of evidence that the numbers have gone down this year, but this is only preliminary.

Mr. POMEROY. Basically, what you're saying—and I wholeheartedly agree with you—is that there's a little more work that needs to be done relative to Mexico inspection activities, and you're working with Mexico to improve the testing and that sort of activity.

Mr. WINEGAR. Yes.

Mr. POMEROY. Good. I'm pleased to hear that. Now, I do have another question that relates to this last question that I had, and any of the panel may answer this. What if a State law is more stringent than a national law relative to, in particular, something like testing on tuberculosis? Will a State law be subject to attack for being in interference with trade?

Mr. MEDLEY. Congressman, I'd like to start off answering that. I think that there are really two questions raised. One would be the responsibilities in the laws governing imports into this country and the sovereign powers of the United States with regard to actions by a State that might be viewed as interfering with foreign commerce. I think with regard to NAFTA, that issue looks at the scientific basis for the action, and normally what we're looking at is to see if the action is scientifically based. I would feel that most requirements that are scientifically based, especially those in the area of animal health care, would be reflected in the Federal requirements.

Mr. POMEROY. First of all, who makes the determination about the scientific base? Second, there are presently State standards that exceed Federal standards, and those State standards may have a scientific basis. So it really cannot stand as an accurate statement that in all instances State standards will be rolled into the national standards.

Mr. MEDLEY. No, I did not say in all instances, Congressman. But with regard to animal and plant health, what we attempt to do is to assure that our requirements are protecting the legitimate interest and rights of the States to protecting animal and plant health. To the extent that these scientifically based concerns are embodied in those State restrictions, they should not be affected by NAFTA.

Mr. POMEROY. Does a panel make that determination, or does the U.S. Government make that determination? Who determines scientific principles and risk assessment bases for these protections? Who determines that?

Mr. MEDLEY. I would think that that would be U.S. Government panels that would do that.

Mr. POMEROY. Not bilateral panels. United States only.

Mr. MEDLEY. United States only, yes.

Mr. POMEROY. Thank you.

The CHAIRMAN. Thank the gentleman.

Mrs. Thurman.

Mrs. THURMAN. Let's continue on with that, because I think that is an issue, and it started with, I think, Mr. Goodlatte. We've understood that the dispute resolutions or the issue of trade barriers—and that's what we hear is the word out there, the trade barrier issue—if, for example, Mexico or Canada tried to bring something into the United States and we suggested that it did not meet the standards that the United States had set out there, that that could be considered a trade barrier; therefore, then, would have to go to that dispute resolution, some mediation.

What we'd like to know, and I think what we're trying to get at, is who is that dispute resolution, how do they make that determination, and in fact if it is determined as a trade barrier, what happens? I don't care who answers it. I'd just like an answer.

Mr. MEDLEY. If I could have Dr. Thiermann of our international programs respond.

Mr. THIERMANN. Thank you, Mrs. Congresswoman. The sanitary regulations are first established by each individual country and on a basis of scientific principles. If an exporting country challenges the United States on our regulations, they would have to challenge

the scientific basis that we utilized, be it the risk assessment procedures or the data applied to the development of that regulation.

Let's assume that this panel, which would be an international United States-Canadian-Mexican panel of experts if the case could not be resolved sooner than that, were to determine that we do not have a justified scientific basis for that regulation. The worst that could happen is, from a trade point of view, there could be retaliation, but the United States would never be forced to accept that product or to change its acceptable level of risk. It is acceptable that each country can have a more stringent requirement than that of standards established by an international organization.

Mrs. THURMAN. Then, let me give you the scenario that the United States Trade Representative did in the governmental operations, and, Mr. Stenholm, this was an interesting one because it had to do with the trucking issue and bringing things over into the United States. So now I'm really confused, I've got to tell you, because they said that the trucking industry—because there's been an issue brought up of how they could do it cheaper and bring it over here, but they would still have to meet our standards. Then he also went on to say, though, that not only would he have to meet the standards of the United States in trucking, but also because they were coming into Texas, evidently there was something written in there that it would have to meet Texas standards, so instead of 80,000, it could only be at 60,000 pounds, say, that that was the amount of poundage that they could carry on their truck. So they raised the trade barrier issue.

So you all have gotten me—I thought maybe you could give me better clarification. I'm real concerned that when we lose that ability, whether it's scientific or based on scientific, and our judgment can come back with saying that there is scientific knowledge, then we do have to accept whatever they're saying. That's what I thought you said.

Mr. THIERMANN. I'm sorry. Let me restate my answer for issues dealing with sanitary matters. The trucking example is not one. If the position taken by the United States is scientifically based, once challenged, we provide that information, the risk assessment and the data utilized for that, and the challenging party would have to prove that the United States used wrong science or did not consider additional data that was available or discussed during the technical working groups, through these groups we have to prevent these issues ever getting to that point. We would have to be proven of having used wrong science or not being able to defend, from a scientific point of view, the reason for taking that regulation.

Mrs. THURMAN. But the panel is made up of the United States, Mexico, and Canada. Is that correct? So it could end up on a two-to-one vote.

Mr. THIERMANN. The dispute settlement panel? Panel decisions are not determined by vote.

The CHAIRMAN. I thank the lady.

Mr. Bishop, and then Ms. Lambert, and then we will conclude.

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

I have listened with great interest, and I'd like to draw the panel's attention to the rules of origin section. I'm very interested in the testimony of Mr. Medley, I believe, that indicated that under

NAFTA, a product that's said to originate in the free-trade area when it is grown, harvested, wholly produced, or substantially transformed in the free-trade area.

I come from an area of the country that produces 38 percent of the U.S. peanut products. My State produces 45 percent of U.S. peanut products, and peanut farmers anticipate some significant impact from the introduction of Mexican peanut imports. Two questions with regard to the rules of origin. The first has to do with raw peanut product in transshipments, and the second has to do with transformed peanut product—peanut butter, peanut paste—which is a significant concern, one, as to where, if at all, peanut butter and peanut paste falls into this definition of rules of origin.

How are we going to determine—how can any of you determine the point of origin of peanuts, whether they came from Argentina, from China, from Mexico, if they're transshipped to Mexico, ground up into peanut butter and peanut paste, then shipped from Mexico under purportedly free-trade provisions into the United States market to our candy manufacturers? How are you going to ascertain the actual point of origin?

Mr. MEDLEY. Congressman, with regard to the peanut products, I think that my colleague from Customs could address that.

Mr. BANKS. Actually, on both counts, Congressman, because we are responsible for the rules of origin and ensuring that they are followed and to prevent transshipments, which would allow another country's product to receive the benefit of the NAFTA preferential treatment. What we do basically on this, first of all, we have a targeting procedure to try to find out who might be involved in transshipments, and we actually can monitor down to a manufacturer level and an importer level what volumes they've imported into the United States over the last time period. We did it for meat for Congressman English over a 3-year time period. We showed what the volumes were.

So, one, we monitor the amounts that are coming into the United States by manufacturer, and we can look for large increases. So we know, first of all, who to go look for. Then—and this is the authority that I've talked about under NAFTA that has been so important to us—is the ability to actually go into Mexico, to go in with auditors and with our commodity specialists, and to go on-site and go through their books and records.

Mr. BISHOP. Can I interrupt you just a moment?

Mr. BANKS. Yes, sir.

Mr. BISHOP. I hear you talking about a 3-year process.

Mr. BANKS. No, sir, I said a 3-year data base. We actually downloaded 3 years worth of data to look at how much they had imported month by month by month.

Mr. BISHOP. Of course, under NAFTA we would expect that with the tariff restrictions being relieved that the import would increase.

Mr. BANKS. Marginally.

Mr. BISHOP. It may or may not. We don't know. It's speculative.

Mr. BANKS. It's a 4 percent average duty rate right now.

Mr. BISHOP. But that's speculative, because with the cheap labor rates in Mexico and the differential between that and the ability for irrigation equipment and all kinds of other capital investment

in farming in Mexico, the production capacity there is going to be greatly increased.

Also, with regard to the point of origin, how will you actually physically determine whether peanuts, once they're ground up into peanut butter and peanut paste, came from Argentina, Mexico, or China, once they're in the ground-up, processed stage? Apparently, under this definition, it would be included as protected under the NAFTA agreement.

Mr. BANKS. Yes, sir. It sure is. They've got to be wholly grown in Mexico in order to qualify for NAFTA treatment. Again, what we would do—one thing I would tell you is that for example, pistachios and those products, we do laboratory analysis, and we can tell when a pistachio—

Mr. BISHOP. I'm talking about peanuts, not pistachios.

Mr. BANKS. I know, and my problem is I can't—

Mr. BISHOP. We don't grow pistachios in Georgia.

Mr. BANKS. I can't guarantee that I can find that scientific analysis for you. But, second, the way we typically do the transshipment process is going through their books and records, and what we find is, did they purchase these peanuts? Did they go through these? Where did they come from? If they bought them, you can go through all of their labor records, their payroll records in determining did they actually get them from a Mexican grower, or did they grow them themselves? That's typically how we do this process.

Mr. BISHOP. All of that can be falsified, and I'm concerned with the verification processes. If there is a dispute, what is the bureaucratic redtape that's going to have to be involved in getting that dispute resolved, and what kind of monitoring with teeth—

Mr. BANKS. That's us, and if there is a dispute, if they can't prove their case, sir, what we do is deny them preference.

Mr. BISHOP. Who are "they"?

Mr. BANKS. Customs. We deny the manufacturer or the exporter preference on those products. We deny the importer preference on those products. Because they have to prove their case to us.

Mr. BISHOP. How will the American peanut grower know that that's even taking place?

The CHAIRMAN. The time of the gentleman has expired.

If I might help my distinguished colleague, we eat more peanuts in this committee in 1 year than are produced in all of Mexico. [Laughter.]

Mr. BISHOP. That's at the present, but under NAFTA we would expect that production to increase.

The CHAIRMAN. There is no more available arable land in Mexico or the necessary irrigation of water. That's just for information.

Mr. BISHOP. Mexico has about as much as they do in Israel, don't they? They can do good peanuts in Israel.

Mr. BANKS. We'd even invite those producers in the United States to come in and look at our methodology, because we'd like to have the best methodology possible. So we'd invite your growers or your associations to come with us and look at how we do this process. We'd be more than happy to open that up.

The CHAIRMAN. I'm sorry. We have about 5 minutes. If you have one question, Ms. Lambert, that you could—

Ms. LAMBERT. Thank you, Mr. Chairman. I just have one question, and it is in regard to the inspection.

When a country becomes eligible to export, it goes through a system of on-site inspections or reviews, obviously, from our inspection and review system in order to be eligible to export to us. Your testimony, Mr. Manis, the inspection happens from two to four times a year maybe. What in the past has been Mexico's record as far as qualifying for exporting into this country under meat and poultry?

Mr. MANIS. Well, there had been a period of time when Mexico did not export to the United States. When we implemented some additional statutory requirements for residues—

The CHAIRMAN. Would the gentlelady yield? Did you vote and come here?

Ms. LAMBERT. No, sir.

The CHAIRMAN. You have not voted? We have about 3 minutes, so we're going to invite this gentleman back.

We thank you for being here. I wish we had a day when we had no legislative business on the floor so we might devote the entire day to you, and we may yet do that. We have a lot of misinformation out there. We have a lot of erroneous perception, and you are the experts that are going to have to help us edify the populous and the Members to the exact scientific data and numbers. Like the peanuts, for example, that Mexico doesn't produce hardly any peanuts, and I think we need to get those facts out.

So we thank you very much, and we'll be back in touch with you.

[Whereupon, at 11:50 a.m., the committee adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]



TESTIMONY OF DOUGLAS ROSS  
ASSISTANT SECRETARY OF LABOR  
FOR EMPLOYMENT AND TRAINING  
BEFORE THE  
COMMITTEE ON AGRICULTURE  
U.S. HOUSE OF REPRESENTATIVES

October 14, 1993

Good morning, Mr. Chairman and members of the Committee. I am pleased to testify before you on the North American Free Trade Agreement -- better known as NAFTA -- and the development of a comprehensive worker adjustment system to ensure that no worker will face unaided the challenge of adapting to economic change, whatever its cause, and a transitional program to assist any workers who are adversely affected by the Agreement until the comprehensive system is in place.

As Secretary Reich has so eloquently testified, NAFTA will mean more jobs and better jobs for American workers. It remains true, however, that despite the final tally of job growth, a tiny proportion of working Americans face the prospect of dislocation as a result of the changes NAFTA brings about. What of those Americans who find their jobs at risk? How do we respond to their very real anxieties?

Let me make four crucial points.

First, labor-market pressures resulting from NAFTA will not come as a sudden, sharp shock. The major changes will develop gradually, giving us time for adjustment. The agreement, it must be remembered, will be phased in over a decade. Workers in industries which have been most sheltered from competition will see barriers drop in stages, not all at once.

Second, a supplemental understanding on import surges provides a safety mechanism to give some breathing room if the pace of change proves too disruptive in particular cases.

Third, the total number of workers put at risk by NAFTA will be quite small relative to the opportunities generated by our large, rapidly changing national economy and relative to the total amount of job change that Americans will experience during the years that NAFTA is phased in.

Fourth, and perhaps most important, this Administration fully recognizes our obligation to ensure that no citizen bears disproportionately the costs of changes that benefit us all. And we are preparing to meet that obligation with a comprehensive strategy for helping workers who have lost their old jobs find new ones.

It is a comprehensive strategy whose motivation and effects go far beyond NAFTA. It is equally relevant to our challenge of scaling back weapons production and converting to a productive civilian economy, adjusting to the unprecedented technological changes shaking up entire industries, adapting to the downsizing of major corporations, and adopting production technologies that do not pollute the environment.

Each of these structural changes will benefit us as a nation. Each has as a side effect the potential dislocation of some small subset of workers from the jobs they now hold. But for every single person out of work and their families, the unemployment rate is 100 percent. People need to know that this

Administration will have policies in place to help ease the transition from the old economy to the new. These policies will help people who believe their jobs may be at risk because of NAFTA -- just as they will be available to everyone who wants to or has to change jobs in the years to come.

Within the next few months we will propose legislation which will move us from a system that simply buffers the pain of unemployment towards a system that speeds displaced workers into re-employment.

For over fifty years, we've had an unemployment insurance system premised on the notion that what workers need most is some income assistance during economic downturns (typically lasting no more than six months) until they get their old jobs back in the same company or industry.

And we've had a scattershot array of job training programs, with each one designed to help a different category of workers who lost their jobs.

Unemployment insurance still helps people, of course. And particular identifiable groups of workers still need retraining. But given the huge structural changes in the American economy, this old system has become a band-aid rather than a cure. Lately, we're spending more than \$35 billion a year just keeping people financially intact until a new job comes along. In each of the last two years, the federal government spent \$12 billion simply extending unemployment benefits. The fact is that -- with or without NAFTA -- more and more Americans need to find new jobs

in new industries. And many of them need retraining (often long-term retraining) regardless of the reason they lost their job.

As a first step, we will seek to identify permanently displaced workers early on. We've found that the early identification of dislocated (versus temporarily laid-off) workers, followed by early readjustment and job-search assistance for them, cuts their time spent unemployed -- along with the associated costs and pain. A recent review of six experimental programs that linked job-search components to the unemployment insurance program found that making this linkage is cost-effective.

Our re-employment system will feature universal access for displaced workers, including displaced farmers and farmworkers, so that the help they receive will depend on what they need to get a new job, not on the reason why they lost their old job. Assistance with unemployment insurance and job-search, counseling, and job retraining will be available through one-stop centers, with a minimum of red tape. Training will be offered by a variety of providers, with options to include basic skills training, literacy and numeracy, and occupational skills training, both classroom and on-the-job. States will be allowed -- and encouraged -- to develop other options to fit the particular needs and priorities of their citizens.

A fundamental flaw in our present unemployment compensation scheme is that while it supports people who are unemployed and looking for new work, it typically does not support people while

they are receiving longer-term training. We hope to eliminate this flaw. We aim to provide income support for displaced workers who need extended retraining and are making satisfactory progress in full-time training programs.

Finally, it is worth noting, in this time of tight budgets and eroded faith in public institutions, that reinvented government is a hallmark of the comprehensive worker adjustment system I have described. Just as our private sector has become more attuned to serving the customer quickly, flexibly and efficiently, so must our public sector. A shiny new training program does no good if it's giving people skills that aren't in demand. Filling out the same form for three different agencies wastes time, shortens tempers, and undermines confidence. For these reasons, accountable, customer-driven, locally-based ways of doing the public's business are built right into the ground floor of the our system -- not tacked on as an afterthought.

~ It is our hope and expectation that the comprehensive reemployment program will be enacted early next year and take effect July 1, 1995. In the interim period, between the effective date of NAFTA on January 1, 1994 to the beginning of the new program, the Administration is committed to ensuring that workers adversely affected by the Agreement be provided early, effective, and comprehensive adjustment assistance. Such assistance will be provided to workers who lose their jobs either because of an increase in imports from Mexico and Canada, or a shift in production by a worker's firm to those countries. In

order to meet our commitment, the Administration is considering additional resources to provide services through the current adjustment assistance program under title III of the Job Training Partnership Act, or alternatively, through an amendment to the Trade Adjustment Assistance Program.

Under either approach, the Administration will ensure that such assistance incorporates the same key components. These include: a quick determination of eligibility for assistance; the immediate provision of critical rapid response and basic readjustment services that will begin the adjustment process, including the provision of relevant labor market information, counseling, assessment, and job search assistance; and, for those who need it, skills training accompanied by income support that will enable workers to participate in such training.

This array of services foreshadows the approach to adjustment assistance that will be taken by the comprehensive program. In ensuring that NAFTA-impacted workers have such services available as soon as the Agreement takes effect, this transitional program will provide an important downpayment on the systemic reform that will follow.

Mr. Chairman, this concludes my prepared statement. At this time I would be pleased to answer any questions that you or other Members of the Committee may have.

REMARKS BY SAMUEL H. BANKS  
ACTING DEPUTY COMMISSIONER  
UNITED STATES CUSTOMS SERVICE

I WANT TO THANK YOU FOR INVITING ME ONCE AGAIN TO SPEAK ON BEHALF OF THE CUSTOMS SERVICE AND TO FURTHER EXPLAIN OUR ENFORCEMENT STRATEGIES FOR THE NORTH AMERICAN FREE TRADE AGREEMENT. WHEN WE LAST MET ON SEPTEMBER 28, 1993, AND ON SEPTEMBER 29, 1993, I WAS ABLE TO GIVE YOU AN OVERVIEW OF THOSE STRATEGIES, AND BEFORE WE TAKE UP THIS ISSUE AGAIN, I'D LIKE TO BRIEFLY REVIEW THE POINTS I MADE THEN.

AT CUSTOMS, WE FULLY UNDERSTAND THE CONCERNS THAT COLOR ANY DISCUSSION OF NAFTA, ESPECIALLY CONCERNS ABOUT OUR ABILITY TO IMPLEMENT OUR ENFORCEMENT STRATEGIES REGARDING NAFTA. FOR A NUMBER OF REASONS, WE BELIEVE THAT NAFTA ACTUALLY PROVIDES PROCEDURES WHICH WILL ENHANCE OUR ENFORCEMENT CAPABILITIES. WITH THE PASSAGE OF H.R. 700, THE CUSTOMS INFORMED COMPLIANCE AND MODERNIZATION ACT, KNOWN AS THE MOD ACT, THE AUTOMATED SYSTEMS WE'VE DEVELOPED WILL OFFER UNPRECEDENTED SUPPORT FOR AN EVEN BROADER RANGE OF ENFORCEMENT ACTIVITIES. THERE IS TODAY AS WELL A SIGNIFICANT LEVEL OF COOPERATION BETWEEN THE U.S. AND THE CANADIAN AND MEXICAN GOVERNMENTS AS EVIDENCED BY THE CUSTOMS MUTUAL ASSISTANCE AGREEMENTS ALREADY NEGOTIATED BY OUR RESPECTIVE CUSTOMS SERVICES. THESE MUTUAL ASSISTANCE AGREEMENTS WHICH ARE CURRENTLY IN EFFECT COUPLED WITH THE NEW PROCEDURES CONTAINED IN NAFTA WILL GREATLY ENHANCE OUR ENFORCEMENT EFFORTS ON OUR LAND BORDERS ONCE NAFTA IS UNDERWAY.

CUSTOMS PLAYED A CENTRAL PART IN THE NAFTA NEGOTIATIONS TO ENSURE THAT PROCEDURAL SAFEGUARDS WERE AGREED TO WHICH COMPLEMENT OUR

ENFORCEMENT STRATEGIES. DURING THE NEGOTIATIONS OUR GOAL WAS TO ENSURE THAT ALL ASPECTS OF THE AGREEMENT COULD BE ENFORCED, TO PREVENT TRANSSHIPMENT OF NON-QUALIFYING GOODS, AND TO ENSURE THAT ONLY GOODS SATISFYING THE RULES OF ORIGIN WOULD BE ACCORDED PREFERENTIAL TREATMENT.

OUR EARLY PARTICIPATION IN THE NAFTA NEGOTIATIONS WAS A MAJOR ACCOMPLISHMENT FOR THE CUSTOMS SERVICE AND FOR ALL THOSE WHO SUPPORT STRONGER ENFORCEMENT REQUIREMENTS ON TRADE. THIS WAS THE FIRST TIME THAT AN AGENCY RESPONSIBLE FOR THE ENFORCEMENT OF IMPORT REQUIREMENTS WAS ACTIVELY INVOLVED IN THE DEVELOPMENT OF ENFORCEMENT PROVISIONS OF A TRADE AGREEMENT. WHILE THE U.S./ CANADA FREE TRADE AGREEMENT CONTAINED A CUSTOMS ANNEX, THE NAFTA CONTAINS A CUSTOMS ADMINISTRATION CHAPTER, WHICH IS CLEARLY ONE OF THE MOST IMPORTANT CHAPTERS IN THE AGREEMENT.

CUSTOMS WAS THE PRINCIPAL PLAYER IN THE DEVELOPMENT OF THIS CHAPTER, WHICH WILL ENSURE UNIFORMITY, PREDICTABILITY, AND TRANSPARENCY OF THE CUSTOMS ADMINISTRATION OF THE AGREEMENT BY THE THREE COUNTRIES. THIS CHAPTER ALSO INCLUDES PROCEDURES TO ENSURE THAT EACH OF THE THREE PARTIES CAN UTILIZE ALL OF ITS ENFORCEMENT AUTHORITY TO THE FULLEST EXTENT TO PREVENT ILLICIT USE OF THE NAFTA PREFERENTIAL TREATMENT.

IT CLEARLY SPELLS OUT THE OBLIGATIONS REGARDING IMPORTATIONS, EXPORTATIONS, AND CLAIMS FOR PREFERENCE. THE TWO MOST IMPORTANT FEATURES ARE THE PROVISIONS ON THE CERTIFICATE OF ORIGIN, AND THE



ABILITY TO VERIFY ORIGIN CLAIMS IN THE TERRITORY OF THE EXPORTER OR PRODUCER. IMPORTERS, EXPORTERS, AND PRODUCERS WILL ALL BE LIABLE FOR FALSE INFORMATION OR REPRESENTATION REGARDING A CLAIM FOR PREFERENTIAL TREATMENT.

THE TOOLS PROVIDED BY THE NAFTA TO VERIFY COUNTRY OF ORIGIN CLAIMS IN MEXICO ADD TO OUR CURRENT ENFORCEMENT ACTIONS WITH RESPECT TO OUR NEIGHBOR TO THE SOUTH. ARTICLE 512 OF THE AGREEMENT REINFORCES OUR OBLIGATIONS WITH RESPECT TO THE BILATERAL CUSTOMS MUTUAL ASSISTANCE AGREEMENTS (CMAA) WITH MEXICO AND CANADA.

THESE BILATERAL AGREEMENTS PROVIDE FOR A BROAD RANGE OF MUTUAL ASSISTANCE AND COOPERATION IN ORDER TO ENFORCE CUSTOMS LAWS MORE EFFECTIVELY. THESE INCLUDE THE EXCHANGE OF INFORMATION IN ALL AREAS OF ENFORCEMENT SUCH AS COMMERCIAL FRAUD, NARCOTICS TRAFFICKING, MONEY LAUNDERING, HIGH TECHNOLOGY DIVERSION AND ASSET SHARING.

MOST IMPORTANTLY, THE NAFTA PROVIDES THE APPROPRIATE MECHANISM FOR PERFORMING ORIGIN VERIFICATIONS AND FORMALIZES THE CONSEQUENCES FOR NON-COOPERATION. THEY ALREADY EXIST, TO SOME EXTENT, SUBJECT TO THE U.S./CANADA FREE TRADE AGREEMENT. IN ADDITION, THE CERTIFICATE OF ORIGIN, AND THE USE OF QUESTIONNAIRES CREATED BY THE AGREEMENT'S ARTICLES 501 AND 506, RESPECTIVELY, WILL BE IMPORTANT TOOLS TO VERIFY ORIGIN FOR GOODS EXPORTED FROM MEXICO.

THE NEW NAFTA RULES OF ORIGIN AND THE NEW CERTIFICATE ADDRESS THE

CONCERNS OF TRANSSHIPMENT FOR ALL GOODS, PARTICULARLY FOR AGRICULTURAL GOODS AND TEXTILES. THE RULES FOR AGRICULTURAL GOODS ARE STRAIGHTFORWARD BASED ON A TARIFF-SHIFT RULE. THE RULES FOR AGRICULTURAL GOODS FOR THE MOST PART DO NOT ALLOW EVEN MINIMAL AMOUNTS OF FOREIGN INPUTS, MATERIALS OR GOODS TO BE MIXED WITH QUALIFYING GOODS. CUSTOMS FIRST TOOL TO ENSURE COMPLIANCE WITH THESE RULES AND REQUIREMENTS IS THE CERTIFICATE OF ORIGIN.

CUSTOMS HAS BEEN WORKING WITH THE RESPECTIVE AGRICULTURE AGENCIES IN EACH COUNTRY TO ENSURE THAT THE CERTIFICATE OF ORIGIN ADDRESSES THE PROSPECT OF OTHER COUNTRIES' GOODS BEING TRANSSHIPPED THROUGH MEXICO OR CANADA. THEREFORE, THE NAFTA CERTIFICATE WILL INCLUDE A PROVISION SPECIFICALLY DESIGNED FOR AGRICULTURAL PRODUCTS. IN ADDITION, THE EXPORTER OR PRODUCER WOULD HAVE TO SHOW WHETHER OR NOT AN AGRICULTURAL PRODUCT IS MADE WHOLLY FROM ORIGINATING MATERIALS.

CUSTOMS WILL HAVE THE RIGHT TO REQUEST AND REVIEW THE CERTIFICATE OF ORIGIN TO VERIFY THE ACCURACY OF THE CLAIM AND INFORMATION PROVIDED. A NAFTA CLAIM CAN ONLY BE MADE IF THE IMPORTER POSSESSES A CERTIFICATE OF ORIGIN ISSUED BY THE EXPORTER OR THE PRODUCER. BY SIGNING THE CERTIFICATE, THE EXPORTER OR PRODUCER UNDERSTANDS THAT THE CERTIFICATE IS EXECUTED UNDER PENALTY OF LAW. LIKEWISE, AN IMPORTER THAT FALSELY CLAIMS ORIGIN OR HAS KNOWLEDGE OF THE FALSE CLAIM WILL ALSO BE SUBJECT TO PENALTIES AND THE PREFERENTIAL CLAIM WILL BE DENIED BY THE IMPORTING COUNTRY. WE WILL HAVE THE RIGHT TO DENY PREFERENTIAL TREATMENT IF WE CAN ESTABLISH A PATTERN OF MISUSE

OF THE AGRICULTURAL PROVISIONS.

CUSTOMS WILL ALSO BE ABLE TO VERIFY A CLAIM BY VISITING AN EXPORTER'S OR PRODUCER'S PREMISES FOR THE PURPOSE OF DETERMINING THE TRUE ORIGIN OF THE IMPORTED GOOD. THIS IS ANOTHER MEANS THAT U.S. CUSTOMS WILL HAVE TO PREVENT TRANSSHIPMENT. I SHOULD POINT OUT THAT THIS IS NOT A NEW ROLE FOR U.S. CUSTOMS, AS WE HAVE EXPERIENCE WITH THIS APPROACH IN DETECTING AND VERIFYING TRANSSHIPMENT OF TEXTILES. IT IS FOR THIS REASON THAT WE PRESSED FOR THIS PROVISION ON VERIFICATIONS. IT WAS CAREFULLY DRAFTED SINCE ALL THREE COUNTRIES UNDERSTAND THE SENSITIVITY OF ALLOWING OFFICERS FROM ANOTHER COUNTRY'S CUSTOMS SERVICE TO VISIT THE PREMISES OF THEIR CITIZENS. THEREFORE, THE AGREEMENT DESCRIBES THE PROCEDURES TO FOLLOW PRIOR TO CONDUCTING THE VISIT, DURING AND AFTER THE CLAIM IS VERIFIED.

LET ME ASSURE YOU THAT CUSTOMS IS TAKING ALL NECESSARY STEPS TO PREVENT TRANSSHIPMENT OF NON-NAFTA GOODS WHILE NOT BLOCKING LEGITIMATE TRADE. BASIC TO THIS IS INFORMED COMPLIANCE. CUSTOMS HAS ALREADY BEGUN THE PROCESS OF TRAINING THE PUBLIC SO THAT IT WILL BE INFORMED OF NAFTA REQUIREMENTS. CUSTOMS IS COMMITTED TO EDUCATING ITS FIELD PERSONNEL AND THE PUBLIC ON THE NAFTA PROVISIONS CONCERNING IMPORTING REQUIREMENTS AND RULES OF ORIGIN. WE WILL ALSO BE ISSUING STANDARD OPERATING PROCEDURES FOR THE FIELD PERSONNEL TO ENSURE UNIFORMITY IN THE ENFORCEMENT OF THE RULES OF ORIGIN.

WE AT CUSTOMS HAVE THE RIGHT PEOPLE TO CARRY OUT OUR ENFORCEMENT MANDATE, BUT TO ASSIST CUSTOMS IN THIS MANDATE WE NEED TO HAVE THE ENACTMENT OF THE MOD ACT. THIS ACT IS THE BASIC UNDERPINNING FOR CUSTOMS TO IMPLEMENT MODERN OPERATIONS AND EFFICIENT RESOURCE ALLOCATION. THE MOD ACT WILL GIVE US THE CAPABILITY TO RELIEVE OUR PEOPLE FROM THE EVER MOUNTING PAPERWORK AND TO MAKE MAXIMUM UTILIZATION OF AUTOMATED TARGETING SYSTEMS.



United States  
Department of  
Agriculture

Food Safety  
and Inspection  
Service

Washington, D. C.  
20250

Statement of Mr. Mark Manis  
Director, Import Inspection Division  
Food Safety and Inspection Service  
U. S. Department of Agriculture  
Before the Committee on Agriculture  
U. S. House of Representatives  
on the North American Free Trade Agreement

October 14, 1993

Mr. Chairman and members of the Committee, I am pleased to have this opportunity to appear before you today to discuss the North American Free Trade Agreement (NAFTA) and its effects on the meat and poultry inspection activities of the Food Safety and Inspection Service (FSIS) should NAFTA be enacted.

The Food Safety and Inspection Service (FSIS) ensures that domestic and imported meat and poultry products are safe, wholesome, and accurately labeled. This responsibility is derived from the Federal Meat Inspection Act (FMIA) and the Poultry Products Inspection Act (PPIA). There are no provisions in NAFTA that would compromise the level of protection to human health now provided for under FMIA and PPIA.

In 1992, the United States imported more than 2.5 billion pounds of meat, poultry, and meat and poultry products from 33 countries. All imported products are subject to requirements that are at least equal to those applied to products produced in the United States. Under NAFTA, imported products would have to comply with requirements that are "equivalent" to U.S. requirements, that is the foreign requirements must achieve at least the same level of protection as the U.S. requirements.

NAFTA recognizes that there may be different but equivalent, scientifically justifiable methods of achieving sanitary requirements. This does not represent any concession of requirements. Rather, NAFTA permits each Party to retain their own appropriate level of protection with respect to imported products.

#### Import Inspection

To ensure the safety of imported meat and poultry for American consumers, FSIS maintains a comprehensive import inspection system. That system involves two major activities. The first is oversight to ensure that exporting countries have in place appropriate controls over their meat and poultry inspection systems. Such countries 1) must undergo a rigorous review process before they can become eligible to export meat and poultry to the United States and 2) must receive periodic reviews by FSIS to maintain such eligibility.

The second part of our import control program is reinspection, on a sample basis, of meat and poultry products as they enter the United States. Reinspection is a check to make sure that the foreign country's inspection system is working. Seventy-eight import inspection personnel carry out import reinspection at 160 official import establishments.

I would like to elaborate on the process for determining the eligibility of a foreign country to export meat and poultry to the United States. This program is based on a "systems approach." We focus on a country's overall inspection system as a means of ensuring consumer protection. For instance, we examine whether a country has the legal authority to impose requirements at least equal to those of the United States in areas such as ante-mortem and post-mortem inspection. We examine the organizational structure and staffing of its inspection program. We also conduct on-site reviews of the country's inspection operations to evaluate all aspects of the country's program, including facilities and equipment, laboratories, training, and individual establishments. This review allows FSIS to thoroughly determine areas that need improvement before certifying a country as eligible to export meat and poultry products to the U.S.

Once a country becomes eligible, we conduct on-site reviews of its inspection system from two to four times a year. The frequency of the reviews is determined by a country's performance history, including previous plant reviews as well as product reinspections at U.S. ports-of-entry. If a country does not continue to operate an inspection system that complies with all FSIS requirements, it is removed from the list of countries eligible to export to the United States.

Currently, Mexico's inspection system is reviewed four times per year. Twenty Mexican meat plants are now authorized to export products to the U.S. All 20 Mexican plants are reviewed each time we conduct a foreign country review. No Mexican poultry plants are authorized to export to the United States.

In Canada, 608 meat and poultry plants are authorized to export products to the U.S. Less than 200 of these eligible plants have shipped product to the U.S. in 1993. FSIS has selected 120 Canadian meat and poultry plants to be reviewed this year.

Part two of our import inspection system -- port-of-entry inspection -- is a further check on the effectiveness of the foreign country's inspection system. FSIS reinspects meat and poultry products on a statistical sample basis as they enter the United States. Reinspection occurs on products that have already passed inspection and been certified as meeting all U.S. requirements by the exporting country.

The FSIS reinspection is directed by an automated system established in 1977. This system receives and stores daily reinspection results from all ports-of-entry and continuously updates compliance histories for every foreign establishment exporting to the United States. Based on a plant's history of compliance with inspection requirements, the nature of the product, and the size of the shipment, the automated system generates an inspection plan.

This system allows USDA to concentrate reinspection resources on plants that present the highest risk. However, USDA import inspectors are still required to examine each lot of product for general condition, proper labeling, and proper certification. The inspection certificate, which must accompany each shipment of meat and poultry products offered for entry into the U.S., certifies that the products comply with all U.S. inspection requirements.

Based on a statistical sampling plan applied to each lot of product presented for reinspection, additional reinspection tasks may be assigned. Selected reinspection tasks could include product examination; net weight verification; container condition review; product label examination; species testing; and laboratory analyses for food chemistry, residues, and microbial contamination.

The sampling plans for imported products selected for laboratory analyses are the same as those applied to U.S. meat and poultry products prepared under Federal inspection. In addition, import inspectors can take additional samples whenever they suspect a problem.

Residue control is one of the major features of an exporting country's inspection system that is evaluated by FSIS as part of its eligibility determination. FSIS requires that all countries exporting to the U.S. must have a residue control program that ensures compliance with U.S. requirements. Under current statutes, it is required that foreign residue control programs include random sampling of animals at slaughter, the use of approved sampling and analytical methods, testing of target tissues for specific compounds, and testing for compounds identified as potential contaminants by USDA or the origin country.

#### Mexico

Mexico is the second largest importer of U.S. meat exports and the third largest importer of U.S. poultry exports. Over 494 million pounds of meat and 285 million pounds of poultry were exported to Mexico in fiscal year 1992. Mexico exported only 986,000 pounds of meat products to the United States in fiscal year 1992.

The volume of future exports from Mexico to the U.S. will

depend greatly on domestic factors in Mexico independent of NAFTA. The demand for meat and poultry products is related to economic growth and an expanding Mexican population, and is likely to outpace the rate of growth of Mexican meat and poultry production.

Current imports from Mexico account for less than 1% of all meat and poultry imports. We expect that current USDA resources can address any changes in the pattern of imports of meat and poultry.

#### Canada

Canada is the third largest market for U.S. meat exports and the fourth largest market for U.S. poultry exports. Over 258 million pounds of meat and 127 million pounds of poultry were exported to Canada in 1992. Canada exported over 750 million pounds of meat products and 9 million pounds of poultry products to the United States in 1992.

It is helpful to examine the impact of the U.S.-Canada Free-Trade Agreement which took effect on January 1, 1989. That agreement called for the removal of trade restraints and set the stage for freer commerce between the two countries. While the U.S.-Canada Free-Trade Agreement encourages freer commerce in meat and poultry it does not dictate inspection procedures to be followed.

For example, in July 1992, the United States and Canada agreed to implement several changes to strengthen their meat and poultry reinspection systems and make them more comparable to one another. Reinspection frequency for meat and poultry products was set at equivalent levels. Equivalent follow-up procedures for shipments refused entry were put in place. This measure ensured that U.S. products would be treated fairly in Canada. Also, equivalent systems for automated tracking of meat and poultry shipments and reinspection results have been instituted in both countries.

A continuing trend toward harmonization of reinspection systems has ensued since the implementation of the U.S.-Canada Free-Trade Agreement. A U.S.-Canada Technical Working Group has been established to examine the whole range of import activities in both countries in order to improve procedures currently in place. The Working Group is also an effective instrument for dispute resolution.

We believe that the North American Free-Trade Agreement would afford us the same degree of flexibility in our meat and poultry import program as has the U.S.-Canada Free-Trade Agreement. The health safety and quality standards for meat and poultry products will not be compromised under NAFTA, just as these standards were not compromised by the U.S.-Canada Free-Trade Agreement.



We are confident that the import inspection system we have in place meets, and will continue to meet, the mission of FSIS to ensure meat and poultry products are safe, wholesome, and accurately labeled.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions you may have.

**Testimony of Mr. Terry Medley  
Acting Associate Administrator  
Animal and Plant Health Inspection Service  
U.S. Department of Agriculture  
Before the Committee on Agriculture  
U.S. House of Representatives  
on the North American Free Trade Agreement**

**October 14, 1993**

Mr. Chairman and members of the Committee, we appreciate the opportunity to appear before you today to discuss the North American Free Trade Agreement (NAFTA) and the Animal and Plant Health Inspection Service's (APHIS) role under NAFTA should it be enacted.

The U.S. Department of Agriculture is committed to supporting the proposed NAFTA and to fostering open trade between the United States, Canada, and Mexico. The APHIS plays a key role in both facilitating trade and protecting the health of U.S. agriculture. We intend to continue our fine record of protecting American agriculture, improving production, and helping to expand export markets for healthy agricultural products. We will also continue

our dialogue with Mexico and Canada through the various forums which deal with animal and plant health issues. For example, the United States - Mexico working group on Plant Health meets to resolve phytosanitary issues specific to Mexico - U.S. trade. A parallel Animal Health Technical Working Group engages in bilateral discussions on animal health issues affecting United States - Mexico trade. Through the North American Plant Protection Organization, officials from the United States, Canada, and Mexico meet to develop strategy and action programs to resolve regional plant health issues. The Tripartite Animal Health Committee meets annually to discuss animal import and export issues. We look forward to supporting NAFTA through these forums.

One of APHIS' primary functions is to prevent the entry of foreign pests and diseases which pose a significant risk of harming U.S. crops and livestock. We carry out this function by regulating the importation of food, agricultural commodities, and other articles which may be hosts to harmful pests and diseases. About 1,500 APHIS inspectors work at the various U.S. ports, international airports, and border crossings to inspect baggage and commercial shipments. These efforts also serve to protect our foreign markets because a disease or pest introduction here could lead some countries to close their markets to us until we have demonstrated that the pest or disease situation is under control.

The APHIS also plays an increasingly important role in facilitating U.S. agricultural exports. We certify U.S. commodities for export as well as negotiate requirements for the entry of certain commodities into other countries. We also played an active role in developing the NAFTA sections which address sanitary and phytosanitary rules.

APHIS is satisfied that the NAFTA provisions will advance U.S. export interests and preserve our ability to maintain import standards and requirements essential for protecting the health of U.S. agriculture. We have always tried to promote transparent, scientifically based regulations. This agreement commits the United States, Mexico, and Canada to such principles. The language in the agreement clearly preserves our right, as well as Canada's and Mexico's, to maintain and implement measures necessary to protect the health of our livestock and crops as long as these requirements have a scientific basis. The notion that NAFTA would open the borders to free movement of commodities infested or infected with agricultural pests and diseases simply is not true.

#### Regionalization

NAFTA put us squarely on a path toward implementing regionalization, or recognizing pest and disease free zones. The APHIS believes that large countries, such as ours, where

there are great differences in climatic, pest, and disease conditions will benefit from the regionalization. We want to preserve our ability to export when an isolated or regional pest or disease outbreak occurs here in the United States. We do not want our trading partners to penalize entire industries by prohibiting our exports because of an outbreak of a disease or pest limited to a specific area or region.

APHIS is working with international standards organizations, such as the International Office of Epizootics and the International Plant Protection Convention, to develop an approach for effectively and safely implementing the regionalization concept. In particular, we intend to work with these organizations to develop internationally accepted standards for assessing a country's animal and plant health infrastructure. We need detailed criteria for assessing the capacity of other countries to accurately identify disease-free and pest-free areas and to assure that the integrity of disease-free and pest-free areas is adequately maintained.

Our experience in working with Mexico to develop and recognize areas free of plant pest risk has demonstrated that regionalization works. The concept of regionalization or zoning is an international reality. Countries like the United States, with strong surveillance and monitoring systems, advanced diagnostic tools, and permanent animal and plant health

infrastructures, will profit from regionalization and be more competitive in a global marketplace.

#### Dispute Settlement Mechanisms

Importing countries occasionally institute changes in their animal or plant health requirements. These regulatory changes are not always clear, often are imposed with minimal advance notice, and sometimes do not have a scientific basis. Changes of this nature are particularly disruptive to U.S. exporters. The APHIS has spent a great deal of time and energy obtaining clarification of other countries' import requirements, and attempting to convince other countries of the need for advance notice of changes in requirements and for science-based requirements.

Under NAFTA, we believe that some of our border problems will diminish. The agreement formalizes the commitment of Mexico, Canada, and the United States to science-based sanitary and phytosanitary regulations and internationally-approved risk assessment procedures. Also, the agreement contains procedures for resolving disputes that may arise over what are believed to be unfair sanitary and phytosanitary requirements. The dispute settlement mechanism in NAFTA should reduce trade disruptions and give us an effective way to appeal and change unfair regulatory practices. We appreciate, Mr. Chairman, your efforts and support in formulating the dispute settlement mechanism and believe it is

a necessary and workable strategy of NAFTA.

#### Rules of Origin

Under NAFTA, a product is said to originate in the free trade area when it is grown, harvested, wholly produced, or substantially transformed in the free trade area. Substantial transformation generally occurs when processing shifts a product from one chapter of tariff classification to another. Products from Mexico or Canada must be accompanied by a certificate of origin which states that the products originated in the free trade area.

If a U.S. company has evidence to show that Mexico's or Canada's products do not satisfy NAFTA rules of origin, U.S. Customs will visit or audit the Canadian or Mexican company that shipped the product. If Customs finds a violation, the products will be denied NAFTA duty preference.

#### APHIS Inspection Practices

Agricultural commodities shipped from Mexico or Canada are accompanied by an international phytosanitary certificate and certificate of origin. The APHIS inspectors will inspect these as well as other shipping documents such as invoices and bills of lading to determine origin. If irregularities are detected or

the inspector has doubts about origin, APHIS will hold the commodities until the shipper provides evidence showing that the shipment complies with all the laws and regulations administered by APHIS. If we have reason to believe the commodities have been illegally imported, APHIS will contact the importer, and may issue an order to destroy the commodities or remove the commodities from the United States, and may institute an action to impose a penalty. APHIS and Customs also have a system to scrutinize shipments of commodities by importers who have attempted to illegally import agricultural commodities in the past.

We have successfully used documents to establish the origin of commodities and to prevent the entry of exotic pests and diseases without unnecessarily affecting commerce. NAFTA will have no affect on our authority to require the documents necessary for our inspections to determine the origin and disease and pest status of agricultural commodities.

#### Conclusion

The USDA and APHIS strongly support NAFTA and we recommend ratification and implementation. If ratified by the legislatures of all three countries, the proposed agreement will eliminate most trade barriers and investment barriers within North America. The 1989 United States - Canada Free-Trade Agreement has already



boosted U.S. agricultural exports to Canada. The NAFTA would boost trade with Mexico, already U.S. agriculture's third largest market. The NAFTA would lead to gains in efficiency in both Mexico and the United States as producers respond to greater market opportunities. United States agriculture will benefit from greater trade, higher agricultural export prices, and increases in economic efficiency and productivity. There are some long term benefits that will begin to accrue as U.S. agricultural industries make a transition to more value-added products that will improve our trade not only to Canada and Mexico, but also to other foreign markets. NAFTA, with its science-based regulations will also strengthen animal and plant health infrastructures, resulting in safer trade in agricultural commodities.

That concludes my prepared remarks, Mr. Chairman. I will be pleased to respond to any questions you may have.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

Food and Drug Administration  
Rockville MD 20857

STATEMENT BY  
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BEFORE THE

COMMITTEE ON AGRICULTURE  
HOUSE OF REPRESENTATIVES

OCTOBER 14, 1993

FOR RELEASE ONLY UPON DELIVERY

Mr. Chairman and members of the Committee:

I appreciate the opportunity to appear before your Committee again to discuss the Food and Drug Administration's (FDA) import enforcement procedures and how these procedures may be affected by the North American Free Trade Agreement (NAFTA). Accompanying me today are Mr. Leroy Gomez, Director of FDA's Southwest Region, Mr. Walter Batts, Director of FDA's International Affairs Staff, and Ms. Linda Horton, Acting Director of FDA's International Policy Staff.

As you know, the mission of FDA is to enforce the Federal Food, Drug, and Cosmetic (FDC) Act and other laws which are designed to protect consumers' health, safety, and pocketbook. These laws are intended to assure consumers that drugs and devices are safe and effective for their intended uses; that cosmetics are safe and made from appropriate ingredients; that all labeling and packaging is truthful and informative; and that foods are safe and wholesome and produced under sanitary conditions. These laws apply equally to domestic and imported products. Because NAFTA as drafted, ensures that each country will continue to be able to apply its health measures in a manner that fully achieves the country's chosen level of health protection, FDA would continue its present border enforcement activities if this agreement is approved. In other words, NAFTA will not change the way we do business.

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Today, as you requested, I will discuss FDA's import program, our pesticide residue monitoring program, Mexican imports, FDA-Mexican government cooperative efforts, and FDA's role in NAFTA.

#### FDA's Import Program

Imported foods make up a substantial part of the average American diet: 25 to 40 percent of fruit and vegetables and 10 percent of the American diet overall is from imported foods. Over 75 percent of the imported products regulated by FDA are foods. Each year there are approximately 1.5 million entries into the United States.

While the legal requirements under the FDC Act are the same for imported and domestic products, the approaches used to assure conformity with these requirements are necessarily somewhat different. For example, the law takes into account the fact that FDA does not generally inspect foreign food producers by specifying that food imports may be detained (i.e., not distributed in domestic commerce) when the food merely "appears to be" in violation of the Act. In the case of domestically produced foods, where we have clear-cut authority to inspect manufacturing processes and conduct inspection both routinely and for cause, the Agency must establish an enforcement action that the food is adulterated, misbranded or otherwise violates the Act.

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Our inspection and enforcement procedures for imports rely on coordination with the U.S. Customs Service with whom we have an excellent working relationship. Imported products, including those regulated by FDA, are subject at the time of entry to inspection by U.S. Customs. FDA is notified of shipments and makes the decision whether to sample or take other appropriate actions. Shipments found not to comply with U.S. laws and regulations may be detained until they are brought into compliance with those laws and regulations. If such goods cannot be brought into compliance, they must be destroyed or re-exported.

Over the years, FDA has made procedural innovations to increase import surveillance efficiency. These approaches are designed to provide wider, more effective and uniform review of goods offered for entry and to help speed the release of imports, and, of course, to give American consumers better protection from products that are adulterated or misbranded, or otherwise do not comply with the FDC Act. I would like to explain one of these approaches that has particular relevance to the main subject of today's hearing.

Besides having the authority to refuse entry to an individual shipment of a violative import, FDA may invoke automatic detention when there is reason to believe that a particular violation may be repeated. Under this control measure, all

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subsequent shipments of the suspect product are automatically detained (not distributed in domestic commerce) until either the importer, shipper, producer, or a responsible agency of the exporting country, certifies to FDA's satisfaction that the shipment complies with the applicable U.S. law.

Automatic detention and related certification means, for example, that if a pesticide residue for which there is no U.S. tolerance was found in an imported food all subsequent shipments of the same product from that shipper would be detained automatically unless accompanied by a certificate of analysis showing that the illegal residue is not present. FDA conducts audits or spot checks of these certified shipments (by collecting and analyzing samples of the food) to ensure that the certificates are valid. If no certificate accompanies a shipment, the shipment will be refused entry without FDA sampling or testing. It is FDA's policy to implement automatic detention for an individual shipper after a single violation and to continue this automatic detention until the shipper can prove to FDA that the illegal residue problem has been corrected, or until the end of the growing season.

Occasionally, FDA places products from an entire country or region of a country on automatic detention when the violative conditions appear to be geographically widespread. Automatic

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detentions of this breadth are rare, and are initiated after other avenues for resolving the problem have been exhausted.

Pesticide Residue Monitoring Program

Let me now turn to how FDA carries out its enforcement responsibilities for pesticide residues on foods. As you know, the Environmental Protection Agency (EPA) is responsible for registering pesticides for use in the United States. EPA also has the responsibility to establish limits, or tolerances, for pesticide residues in both raw agricultural commodities and processed foods; these tolerances apply to both imported and domestically grown foods. EPA-established tolerances are commodity specific and represent the maximum amount of pesticide residue that may legally remain in food. In the absence of a tolerance, any level of pesticide residue is per se illegal. FDA is responsible for enforcing these tolerances and for determining whether an imported food violates the FDC Act.

Each year, FDA develops and implements a national plan for sampling imported food and domestically produced food, for pesticide residues. The national plan is a compilation of individual plans developed by each FDA district office and is reviewed by FDA headquarters staff to ensure the most comprehensive national coverage. FDA headquarters also monitors

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the plan's progress and, where indicated, redirects field sampling activities.

FDA collects regulatory samples early in the marketing chain to afford the greatest opportunity for determining the source of illegal residues (e.g., the grower involved). This system prevents the flow of further shipments that may contain the same residues. Thus, for imported foods, we collect samples directly at the port of entry. FDA sampled shipments are not allowed to be marketed until the results of the FDA testing are known and the shipments are released by the agency.

FDA's sampling strategy is based on the volume of foods entered at various ports, and on whether foods presented previous problems, assuring as comprehensive monitoring as possible with available resources. This strategy emphasizes scrutiny of products from countries with a high volume of produce exported to the United States and commodities that have a history of residue violations.

FDA analyzes samples using multiresidue methods that can detect and measure residues of a large number of the pesticides used in the United States and in other countries. The Agency's methodology and the range of pesticides covered are continually being expanded. Still, although multiresidue methods can detect many of the pesticides commonly used worldwide, there are



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pesticides that cannot be detected by these methods. To complement multi-residue methods, FDA uses single-residue methods to monitor for a number of other pesticides. Because single-residue methods are less cost efficient, they are used on a selective basis.

Our sampling approach emphasizes fresh agricultural commodities over processed foods, because this increases the likelihood of finding the violation and tracing it to the grower. However, processed foods are included selectively in the sampling program. In addition, FDA's district offices conduct surveys of certain basic food items, such as milk and milk products, eggs, and fish, and special surveys of selected pesticide/food combinations of current interest.

When illegal pesticide residues are found in an imported food shipment, the shipment is refused entry and required to be destroyed or shipped out of the United States. As already mentioned, FDA may also invoke automatic detention of subsequent, related shipments.

In 1992, FDA collected and analyzed a total of 16,428 food samples for pesticide residues under its regulatory monitoring programs. Of these, 8,651 samples, or 53 percent, were samples of imported foods from 94 countries. Overall, no violative residues were found in nearly 96 percent of the import

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surveillance samples, and 66 percent had no detectable residues at all. Less than 1 percent of the import samples had pesticide residues that exceeded EPA tolerances, a finding that is about the same as the percentage of domestic samples that exceeded tolerance. Approximately 3 percent of import samples were found to contain residues of pesticides for which there is no established U.S. tolerance. Therefore, approximately 4 percent had residues that exceeded EPA tolerances or for which there is no established tolerance. The majority of these violations involved residues of pesticides that have U.S. tolerances, but not for the particular commodity in which the residue was found.

#### Imports From Mexico

As you know, a large volume of fresh produce enters the United States from Mexico, especially during the winter. In 1992, 32 percent (versus 25 percent in 1991) of imported foods sampled by FDA for pesticide residue analysis were imports from Mexico. Essentially all this work on Mexican produce is conducted by FDA's Dallas and Los Angeles district offices. In 1992, the violation rate for imported Mexican produce, with illegal pesticide residues, was comparable to that of produce from other countries--3.8 percent. Also, we have found that as with other countries, most of the residue violations in Mexican produce are residues of pesticides that are registered in the United States, but not for use on the food crop in which the residue is

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detected. There were 52 automatic detentions invoked for imported Mexican produce in 1992.

Currently, FDA in concert with EPA works with the Mexican government as a partner in our efforts to reduce the likelihood that violative residues will appear on foods imported from Mexico. We consider our relations and communications with Mexico to be excellent. We have worked with the Mexican government and Mexico's agricultural and pesticide industries to exchange information on FDA's regulatory system, the results of our monitoring, and, of course, on how to comply with U.S. pesticide tolerances. We have an annual bilateral meeting with Mexico's Ministry of Health and have developed a jointly agreed workplan for technical cooperation on a variety of issues. We also have routine "Border Conferences" with Mexican government officials to discuss matters of mutual interest. As a practical matter, we talk to them informally on a daily basis to address border issues of concern. We are striving to lower the number of violative Mexican products imported to the U.S. by helping their food producers keep abreast of U.S. tolerance requirements, among other things.

In 1988, FDA entered into a Memorandum of Understanding (MOU) with the Mexican Ministry of Agriculture regarding various cooperative programs. The MOU addresses technical cooperation in the area of pesticide use and monitoring and establishes avenues

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of communication between the designated regulatory units of both countries. Under the MOU, we are also working with the Mexican government to assist in Mexico's laboratory testing programs and to solve problems arising from illegal pesticide residues on Mexican produce.

U.S.-Mexico Pesticide Project

Related to the latter concern is a project that FDA in cooperation with EPA formally initiated 2 years ago that is aimed at identifying, and where possible, resolving the differences between U.S. and Mexico tolerance regulations. Under this project, Mexico is identifying pesticide-crop-pest combinations that are important to Mexico agriculture but lack tolerances. EPA and FDA will be reviewing the list and identifying possible alternative pest control practices or alternative pesticides that already have U.S. tolerances for the particular food commodity which might be effective for controlling the particular pest.

EPA will provide information on the current regulation status for the chemicals on this so-called critical list where suitable alternatives may not exist. For example, pesticides that already have tolerances in the United States for other food uses, may represent the best candidates for additional tolerances, provided no risk concerns have been raised.

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Once the list of critical pesticide-crop-pest combinations has been refined, Mexico would begin working with the manufacturers of the pesticides where appropriate to develop the data necessary to support tolerances which would be submitted in the form of tolerance petitions for EPA evaluation under its normal procedures.

This project will take time, but in the long-term, we believe it will prove to be an effective way to further assure the safety of imported Mexican produce. It also demonstrates Mexico's commitment to assure its pesticide uses are consistent with U.S. requirements. Finally, the project shows the spirit of cooperation that characterizes our working relationship with Mexico in recent years.

#### FDA Role In NAFTA

Since so much of the trade between the United States, Canada, and Mexico is in goods regulated by FDA, the Agency was engaged actively in negotiations of NAFTA. As you are aware, from the beginning the federal government has been committed to negotiating an agreement that would not compromise the protection of American health, safety, or the environment. To this end, FDA and EPA were directly involved in the development of Chapter 7 (Sanitary and Phytosanitary Measures) as well as Chapter 9 (Standards-Related Measures/Technical Barriers to Trade). We are

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satisfied that both these portions of NAFTA would in no way prevent FDA from carrying out its regulatory activities, or compromise our laws and regulations to protect the public health. In fact, the agreement has explicit provisions to allow each country to set standards that each believes are appropriate and ones more stringent than international standards. NAFTA also maintains approval systems that prevent products from being marketed until the appropriate approvals are obtained.

Under NAFTA, FDA would continue the Agency's import program for Mexican products as it has in the past. We consider public health and consumer protection to be the bottom line. We can assure you, Mr. Chairman, there will be no relaxation from the requirements of the FDC Act for any FDA regulated product imported into the U.S. from Mexico. Indeed, we have found that the United States-Canada Free Trade Agreement has not changed our border enforcement activities.

We understand that there is speculation that the volume of FDA-regulated products imported from Mexico may increase significantly under NAFTA and this may overwhelm FDA's ability to assure violative product does not enter the United States. For some time, however, FDA has been expanding its import program through a number of means to enable us to handle increased numbers of entries. In the near future, we will have in place a computer system that will provide more immediate data on products

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being imported. This will enable us to better track import trends and allocate resources where we need them most. In addition, we are developing country profiles to identify each country's strengths, weaknesses and infrastructures; we are surveying specific commodities for specific problems; we are conducting surveillance with state and federal agencies; we are educating industry, trade groups, and consumers; we are providing technical assistance to foreign governments; and we are expanding our foreign inspection program. We believe all of these efforts are making our import program more efficient and capable of handling increasing numbers of imports.

Having NAFTA in place could benefit our border enforcement activities. NAFTA is expected to stimulate higher levels of commitment by Mexico to solve regulatory problems than would occur under the no-NAFTA scenario. Moreover, it would encourage systems and criteria similar to those established in the United States, which will help ensure the safety, quality and effectiveness of FDA-regulated products. These cooperative efforts with Mexico should assist the Mexican government to strengthen its infrastructure standards for development, conformity assessment procedures (e.g. analyzing export products for illegal pesticide residues), and enforcement efforts. In the long term, this would benefit United States' consumers by providing added assurance that products imported from Mexico meet U.S. standards.

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Although we are already working extensively with Mexico to assure that its products meet our standards, NAFTA would require that we exchange proposed regulations and standards in advance and conduct technical cooperation as may be mutually agreed. These consultations, by solving technical problems before they occur at the border, may eventually save us resources as we have experienced with the U.S.-Canadian Free Trade Agreement by allowing us to redirect monitoring to countries with higher pesticide violation rates.

In summary, NAFTA was drafted to safeguard the ability of governments to ensure food safety. FDA intends to continue the Agency's border enforcement activities under NAFTA. As I indicated, the United States government, FDA and EPA in particular, has a number of initiatives underway to assure the safety of Mexican imports. We believe that NAFTA will enhance these activities.

Mr. Chairman, this concludes my formal testimony. My colleagues and I will be glad to respond to any questions you may have.



# **NORTH AMERICAN FREE-TRADE AGREEMENT**

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**TUESDAY, OCTOBER 19, 1993**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON AGRICULTURE,  
*Washington, DC.*

The committee met, pursuant to call, at 9:35 a.m., in room 1300, Longworth House Office Building, Hon. E (Kika) de la Garza (chairman of the committee) presiding.

Present: Representatives English, Glickman, Stenholm, Volkmer, Penny, Long, Condit, Dooley, Hilliard, Pomeroy, Thurman, Farr, Roberts, Gunderson, Lewis, Combest, Barrett, Nussle, Bohner, Ewing, and Canady.

Staff present: Gary R. Mitchell, minority staff director; Dale Moore, minority legislative coordinator; Glenda L. Temple, clerk; Anita R. Brown, Joe Dugan, Xavier Equihua, and Lynn Gallagher.

## **OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

The CHAIRMAN. The committee will be in order.

We have scheduled our meeting today to allow various agricultural-related organizations to express their views on the North American Free-Trade Agreement. We have had a wide range of agricultural and nonagricultural organizations that have given us information, officially and unofficially and that have wanted to testify both for and against. We have a very extensive list for today and we will try and accommodate everyone.

If there is anyone that might have a scheduling problem, and that needs to testify outside of the list where they appear, if they would let the staff know, we will be happy to try to accommodate you.

The schedule for this week on the implementing legislation, we have had to accelerate, having received word that the vote will be on November 17. If that schedule holds, then we need to move on our part. We will conduct our section-by-section walkthrough of the agreement with counsels from the United State Trade Representative's Office and USDA tomorrow starting at 3 p.m.

The committee's markup of the implementing bill will be held on Friday, October 22 at 10 a.m.

I would like to advise the members, we have sent or are sending a notice that if you have proposals, that you submit them to staff. We will be in a very technical, more restrictive than normal legislative situation as we cannot change the agreement. We cannot, quote, unquote, change the thrust of the agreement.

Many of the areas that are of concern to us and that we have been discussing are not within the jurisdiction of this committee. So we have at best a very awkward situation where we need to see the amendment, we need to check with the representatives of the Trade Office, we need to check with the leadership and the parliamentarians here in the House to the extent that amendments might be offered that would be viable within the limitations imposed on us. That is for general information.

This morning, we are happy to have the distinguished group that will represent their organizations or their views on this issue. I would call the first panel at this time: The Honorable Robert Walker, secretary of agriculture for the State of Maryland; Dr. Martha Roberts, deputy commissioner for the department of agriculture from Florida; Keith Eckel, president, Pennsylvania Farm Bureau Federation; Mr. Leland Swenson, president, National Farmers Union; Dr. Edward Schuh, dean and professor, Hubert Humphrey Institute; Mr. Stewart Huber, president, Farmers Union Milk Marketing Cooperative; and Mr. James C. Barr, chief executive officer, National Milk Producers.

Also, any prepared statements from the members of the committee will appear at this point in the record, and then we will hear from Mr. Walker.

[The prepared statements of Mr. Williams of Montana, Mr. Roberts, Mr. Emerson, Mr. Lewis, and Mr. Everett and response to questions from Mr. Allard follow:]

PAT WILLIAMS  
MONTANA

MAJORITY DEPUTY WHIP

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STATEMENT OF CONGRESSMAN PAT WILLIAMS  
AGRICULTURE COMMITTEE HEARING ON ISSUES RELATING TO NAFTA

October 19, 1993

Much of eastern Montana was settled in the early part of this century on the basis of free trade and an export-based economy. With about two-thirds of the state's wheat crop (a record this year, by the way) is sold overseas, principally to Pacific Rim countries that are picky about wheat quality.

On the eve of the enactment of the U.S.-Canada Free Trade Agreement, Montana farmers and ranchers were excited about the prospect of an alliance with our trading partners to the north. Most of our state's producers supported that agreement.

Ranchers were led to believe that they'd be putting potloads of feeder cattle on a three-hour trip to Alberta feedlots, rather than a two-or-three day trip to the Midwest or the Southwest.

Farmers, particularly those growing malting barley or other specialty crops, had hopes of selling their product to nearby markets north of the border.

The Canadian Free Trade Agreement now looks to Montanans as a one-way street.

The Montana cattleman heading from Great Falls is more than a little annoyed when he passes a caravan of Canadian semis laden with imported cattle.

But his frustration is small compared to the hundreds of Montana grain farmers who were shut out of their local elevators -- sometimes for weeks or even months at a time -- because those facilities were bursting with Canadian grain.

As we begin consideration of NAFTA, my Montana constituents are understandably cautious.

They don't want to be fooled again.

They don't want our state to become a mere highway for Canadian grain, livestock and meat products headed to Mexico.

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Statement of Congressman  
Pat Williams  
Page 2

They do want to fix some of the problems they found with the U.S.-Canada Agreement. They'd like the Canadian Wheat Board to be called on the carpet and open its books. They'd like end-use certificates to guarantee that we're knowledgeable about the quality and quantity of grain entering our borders -- and to make darned sure we're not blending Canadian grain, then exporting it under subsidized EEP sales.

Canadian grain dumping already has cost the American taxpayers something like \$600 million in added subsidies because that grain has driven our wheat and durum prices down, which drives deficiency payments up.

Canada also has snatched away our former market share of wheat and barley sales to Mexico, causing many of us here in Congress to push for EEP sales to Mexico to try to regain that customer.

Wouldn't it be ironic if we were to discover that subsidized Canadian grain had been blended and somehow worked its way into an EEP sale -- one of those sales to Mexico designed to combat Canada's marketing practices there.

Before we sign onto any NAFTA, let's make sure we learned some lessons from the U.S.-Canada Agreement.

Let's have guidelines that standardize health requirements for live animals and inspected meat. Let's know what subsidies, hidden or otherwise, tilt the playing field one way or another.

Let's understand the significance of equal and well-enforced environmental and labor laws, and make sure we have safeguards with some teeth in them.

Throughout history, trade has been a way for nations and people to share their cultures, promote peaceable relations and lift each other up economically.

At the dedication of the St. Paul Minnesota World Trade Center several years ago, one of the highlights was a series of panels illustrating those positive aspects of increasing trade, going back to the old spice routes and the silk trade.

Today, as we move toward expanding trade to a continental and perhaps hemispheric level, we must understand our responsibility in ensuring that this new order learns from the past -- particularly the mistakes of the Canadian Trade Agreement.

October 19, 1993

Statement  
Congressman Pat Roberts  
Full Committee Hearing on NAFTA  
October 19, 1993

Mr. Chairman:

I want to thank you for scheduling today's hearing on the North American Free Trade Agreement. In my view, NAFTA is the most important issue this Committee will face during the 103rd Congress.

Today we will be hearing from a wide spectrum of producers, agribusinesses and others with a deep interest in NAFTA. While this Committee has held a number of public hearings on NAFTA here and across the country, I believe it is very important that all those affected by NAFTA have every opportunity to express their views on this very critical issue. I look forward to hearing those views today.

All of us here--regardless of our position on NAFTA--would agree that it is far too important an issue to be decided on the basis of emotion or misinformation. Unfortunately, this debate has been characterized by both. One of the most current misunderstandings which reflects both emotion and misinformation is that NAFTA will make us lower U.S. food safety standards. That is simply not true because under NAFTA we will continue to set our own food safety requirements and imported food products from Mexico will have to meet those standards. Conversely, other folks are saying that NAFTA locks us into existing environmental laws and pesticide regulations that some Members believe should be changed or, if circumstances dictate, lowered; that is not true, either, because NAFTA does not--cannot--prevent us from setting scientifically based environmental standards we think are

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appropriate for U.S. citizens. Those who argue that NAFTA weakens U.S. sovereignty may have hit a popular hot-button but they haven't argued from the facts.

I hope that we can use this hearing today as an opportunity to clarify this and other issues and that everyone can leave this room understanding what is at stake for agriculture.

I would just make one further comment, one which I have often made during the course of the long debate over this agreement. While it is appropriate and necessary for us to examine carefully the potential effects of NAFTA on U.S. farmers and producers, I think it just as important for us to consider the future of American agriculture without NAFTA. I believe that without increased trade and expanded markets, the economic future for producers and rural communities is bleak. NAFTA is not perfect and it is not the answer to all of the economic problems facing our nation and agriculture. But let's not fool ourselves: NAFTA is the key to keeping the 700,000 American jobs now dependent upon trade with Mexico; it is the key to maintaining the nearly \$4 billion in agricultural exports we now send to Mexico; and it is the key to expanding those farm exports further--some dramatically-- and creating additional American jobs.

What is the alternative for increasing farm income if Congress rejects NAFTA and the expanded markets it promises for U.S. producers? Frankly, I haven't heard anyone discuss any alternative to NAFTA that would provide the same opportunity for U.S. producers to see their incomes grow from greater participation in the market place.

Again, I want to welcome our witnesses today and thank them for their participation in this debate that is so important to the future of U.S. agriculture.

**BILL EMERSON**  
 MEMBER OF CONGRESS  
 8TH DISTRICT MISSOURI

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STATEMENT OF CONGRESSMAN BILL EMERSON  
 BEFORE THE HOUSE AGRICULTURE COMMITTEE  
 REVIEW OF THE NORTH AMERICAN FREE TRADE AGREEMENT  
 OCTOBER 19, 1993

Mr. Chairman, I wish to thank you and our Ranking Member, Mr. Roberts, for holding this public forum today to discuss a matter vitally important to American agriculture. The future trade relationship with our neighboring global trading partners has never been more critical.

Certainly, world trade is the key to the future of American agriculture. Maintaining our current farm markets is no longer good enough for the average American farmer. The future economic prosperity of the men and women who ensure the sustained production of food and fiber for the world hinges on our ability to create and expand new markets around the globe and particularly -- in our hemisphere.

Most of our nation's farmers have been greatly encouraged by our government's efforts to liberalize agricultural trade with our foreign trading partners. However, in reviewing this landmark trade agreement, we must ensure that this pact truly benefits the many agricultural producers of this nation -- not undermine already fragile domestic markets.

I do look forward to working with this Committee and the Administration in order to open new markets and expand old ones. Likewise, I am encouraged by the prospects of a closer trade relationship with Mexico and the benefits that American agriculture may gain from such an agreement. I stand ready to assist the American farmer toward that goal.



**Statement of the Honorable Tom Lewis of Florida**  
**House Committee on Agriculture**  
**October 19, 1993**  
**Review of Agricultural Economies and the NAFTA**

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Mr. Chairman, once again, I would like to thank you for holding this series of hearings on the North American Free Trade Agreement (NAFTA). Among today's topic is the effect that NAFTA will have on rural economies. Speaking on behalf of rural communities throughout Florida, I can without hesitation state that the only thing worse than NAFTA's effect on the state of Florida agriculture will be the NAFTA's effect on rural economies in Florida that rely on agriculture for their livelihood.

As a result of the hearing that the Committee held in Florida, I am sure the Committee knows the position of Florida agriculture on the NAFTA. The Committee has heard from numerous sources that Florida agriculture, particularly citrus, sugar, and winter vegetable production, is one of the biggest losers under the NAFTA. Let me assure the Committee that neither my position nor the position of Florida agriculture has changed. I will work to defeat the NAFTA as it will devastate Florida's \$6.2 billion agriculture industry.

Allow me to quote to the Committee from the testimony of Dr. Leo Polopolus, of the University of Florida, from our Orlando field hearing. He states:

"It is highly possible for NAFTA to impose a net loss of 100,000 direct agricultural jobs in Florida (because of lower domestic farm prices from increased Mexican imports). These job losses would be concentrated in Florida's citrus, vegetable, and citrus industries. Because of the multiplier effects, additional non-agricultural employment would also be adversely affected in Florida, **particularly in the rural areas.**"

Mr. Chairman, to see what the potential effects of the NAFTA are on Florida agriculture, I would invite you to visit a small town in Florida called Moore Haven, situated in the poorest county in Florida, Glades County. In 1979 Moore Haven lost its primary source of economic activity, its sugar mill. Since that time, economic growth in this small rural community has been non-existent, and jobs continue to move away, most recently with the closing of a fishing lure manufacturing operation that moved its six jobs to Mexico.

Mr. Chairman, no amount of job retraining will help these rural communities adjust from the devastation caused by NAFTA. Agricultural workers displaced by the NAFTA will not be able to find a job in rural Florida, because there will be no jobs without a viable agricultural industry. Agriculture is the source of economic viability in these rural communities.

I have included for the record a copy of a resolution unanimously passed by the City Commission of Pahokee, Florida, objecting to the NAFTA in its present form. I believe that this resolution accurately depicts how rural communities in Florida view the NAFTA and what affect the agreement will have on similar communities. Although, as a result of reapportionment, I no longer represent the city of Pahokee, I believe this type of resolution could have been passed by any of the inland rural communities of Florida that derive their livelihood from agriculture.

I have stated many times, Mr. Chairman, the impact of NAFTA will certainly be felt beyond the farm as agriculture has an overall economic impact of over \$16 billion to Florida. Rural economies in Florida cannot sustain the kind of irreparable damage that will be caused by the NAFTA, and they are certainly not a part of the "big picture" that everybody talks about with this agreement.

Thank you, Mr. Chairman.

(Attachment follows:)

OCT - 6 1993

RESOLUTION 93-41

A RESOLUTION OF THE CITY COMMISSION OF PAHOKEE, FLORIDA OBJECTING TO THE NORTH ATLANTIC FOREIGN TRADE AGREEMENT (NAFTA) IN ITS PRESENT FORM.

WHEREAS, South Florida is one of the most viable and important farming areas for the production of sugar and vegetables in the United States; and

WHEREAS, we agree that foreign trade is a very important part of the nation's economy; and

WHEREAS, for trade to be beneficial to all parties the standards for fertilization, pesticides and wages must apply to all parties; and

WHEREAS, the United States makes sure that the regulations are followed and many other countries such as Mexico do not which presents a handicap to the American farmer.

NOW, THEREFORE, be it resolved that the City Commission of Pahokee does hereby object to the NAFTA bill in its present form and believes that the inequities in the farming practices of the United States and Mexico will be detrimental to the American Farmer and the communities such as Pahokee that depend on farming and that this will cause a ripple effect throughout the economy of the United States that will be devastating.

This Resolution shall become effective upon adoption.

PASSED AND ADOPTED this 28th day of September 1993.

[Signature]  
MAYOR

ATTEST: [Signature]  
CITY CLERK

MAYOR HORTA  
VICE MAYOR NORMAN  
COMMISSIONER SINGLETARY  
COMMISSIONER BABB  
COMMISSIONER MOORE

YPS  
YPS  
YPS  
YPS  
YPS

APPROVED AS TO LEGAL SUFFICIENCY  
[Signature]  
MICHAEL H. STAUDER  
CITY ATTORNEY

## OPENING REMARKS OF THE HONORABLE TERRY EVERETT

HEARING ON NAFTA AND THE REVIEW OF RURAL  
ECONOMIES, FOOD SAFETY, AND ENVIRONMENTAL ISSUESAGRICULTURE COMMITTEE  
OCTOBER 19, 1993

I would like to thank the Chairman, Mr. de la Garza, and the ranking minority member, Mr. Roberts, for continuing to hold these hearings on the effects of NAFTA on the agricultural community.

I would also like to note that one of my constituents, Mr. James Earl Mobley, is providing written testimony for the record here today. Mr. Mobley, who is from Shorterville, Alabama, is the president of the National Peanut Growers Group. I feel this written testimony offered today offers a stark picture of what could happen to rural communities if NAFTA is enacted.

Mr. Chairman, I am very concerned with what will happen to my largely rural district in terms of economics and quality of life. My district, which is comprised of fifteen counties in the Southeast corner of the Alabama, ranks third in terms of total peanut acreage. In spite of the many repeated requests to the Administration by those in rural areas as to the economic consequences of NAFTA, these pleas have largely gone unheard. Being from the Wiregrass area myself, I understand firsthand the economic interdependence that these small communities in Southeast Alabama have on agriculture, specifically peanut production.

Today, I hope that this committee pays close attention to the testimony offered here today. The Agriculture Committee is charged with representing the interests of the farmer and the agricultural producer, and I feel that this committee has done a good job of that in the past. However, this trade agreement is not in the best interests of the American worker and farm producer, and as Member of Congress and the Agriculture Committee we owe it to that farmer to represent his interests.

I am all for increased exports of agricultural products to Mexico and Canada, but I also ask for a level playing field. This trade agreement encourages American investment to Mexico, while doing nothing to establish a level playing field for American peanuts. I say NO to this NAFTA.

THANK YOU, MR. CHAIRMAN.

(Attachment follows:)

**How will the domestic peanut program and Section 22 be impacted under the NAFTA?**

Under the NAFTA, the U.S. will eliminate its current Section 22 quota for Mexico. Mexico will receive a tariff-rate quota of 3,377 metric tons in the first year of NAFTA implementation, which will grow 3 percent annually. Any U.S. imports over the quota will face a tariff of 123.1 percent on shelled peanuts and 186.1 percent on unshelled peanuts. These over-quota tariffs will be phased out over 15 years--15 percent in the first 6 years and the remaining over the next 8 years. *This treatment applies to only Mexico*; Section 22 quotas remain in effect for all other countries.

The NAFTA also contains strict rules of origin to prohibit either U.S. additional peanuts or non-Mexican peanuts from being made into peanut products and being exported to the U.S. with NAFTA preference. The U.S. will retain its authority to assess penalties on handlers for imported peanuts made from U.S. additional peanuts. These rules were explicitly incorporated into the NAFTA to address concerns of U.S. peanut producers to help ensure the domestic peanut program would not be adversely affected by the NAFTA.

**How does the NAFTA or its supplemental agreements protect Section 22 and the ability of the U.S. to maintain its ability to limit imports to protect the operation of and lower the cost of operating domestic farm programs?**

Under the NAFTA, we are eliminating Section 22 restrictions *only on Mexico*. Section 22 quotas will remain in place on all other countries, including Canada. We will not have to change any domestic farm programs as a result of the NAFTA. In fact, because of expected increases in exports to Mexico, we expect farm program costs to decline slightly as U.S. farm prices increase as a result of the NAFTA.

## Responses to Congressman Allard's Oct. 4 Questions

## 1. Has the use of EEP in Mexico had the desired impact?

The wheat EEP to Mexico has allowed U.S. wheat to meet unfair competition in the Mexican market. Since the June 24 announcement of EEP availability, over 245,000 tons of U.S. wheat has been sold to Mexico under EEP. Continuation of this pace would clearly represent a recovery in the U.S. position in the Mexican market vis a vis other suppliers.

## 2. Do you see the EEP as a permanent solution to the problems of Canadian subsidies and price activities in the U.S. and Mexico?

The EEP specifically addresses the problem of unfair trade practices and U.S. price competitiveness in Mexico. However, with regard to the broader problems of Canadian subsidies and pricing policies, the EEP for Mexico can only be seen as a partial and temporary solution. This broader problem involves Canada's internal supports and other governmental assistance to producers, and these can best be addressed in the Uruguay Round and elsewhere as the opportunity arises.

3. It's my understanding that the Mexican government is set to announce reform of its agricultural support programs along the lines of the U.S. system. What effect does the continued use of export subsidies in North America have on Mexican producers? What sense does it make to continue to allow the use of export subsidies among parties to a free trade agreement?

The Mexican Government announced on October 5 a new farm support program that will provide direct payments to farmers as support prices are lowered to world levels. Right now, Mexican producers for basic crops receive artificially high support prices, which are maintained through the use of licenses to limit imports. Export subsidies do not currently affect these support prices, because Mexico does not issue licenses for imports until the domestic crop is marketed at the support price.

Under the NAFTA, the U.S. is allowed to use export subsidies in Mexico to counter subsidized imports from other countries. If Mexico is not importing such subsidized products, the U.S. will not have to use export subsidies. The long-term objective of the NAFTA is an export-subsidy free North America.

Questions for Ambassador Kantor from Congressman Wayne Allard

- 1) Attached to summaries of the side agreements my office has received there is mention of a border financing institution that would approve and fund different projects related to U.S.-Mexican border cleanup. Will this institution be part of the NAFTA side agreements Congress will vote on or will it be a stand alone proposal by the administration?
- 2) Will this border financing institution define at what point the border will be cleaned up? At that point will it disband?
- 3) Who will make the spending and management decisions at this facility? If taxpayer dollars are used at this facility what oversight will the United States have on this facility?

(The answers were not received at time of printing.)



**STATEMENT OF ROBERT L. WALKER, SECRETARY OF AGRICULTURE, STATE OF MARYLAND, AND CHAIRMAN, WORLD TRADE COMMITTEE, NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE**

Mr. WALKER. Thank you, Mr. Chairman and members of the committee. Good morning. I am Bob Walker, the secretary of agriculture for the State of Maryland. It is a pleasure to appear before the committee today on behalf of the National Association of State Departments of Agriculture as chairman of its world trade committee to discuss the North American Free-Trade Agreement.

NASDA is a nonprofit nonpartisan association of public officials representing the commissioners, secretaries, and directors of agriculture in the 50 States and in the territory of American Samoa, Guam, Puerto Rico, and the Virgin Islands.

I want to take this opportunity to thank you, Mr. Chairman, for your continued strong leadership on issues important to American farmers and agriculture, and to thank the distinguished members of this committee who effectively tend to the interests of not only agriculture but to the broader interests of the American people.

NASDA supports all efforts to expand foreign trade, including the adoption of NAFTA. NASDA believes that 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 NAFTA at NASDA's recent annual meeting in Waterville Valley, New Hampshire. They strongly urged Congress to pass the implementing legislation and the NAFTA trade agreement.

Expanding foreign trade has long been a priority for the U.S. agricultural industry, as this committee knows well. Overseas exports directly help the American farmer by providing additional marketing options, opportunities, and improved income.

U.S. agricultural exports generate employment, income, and purchasing power in both the farm and nonfarm sectors. Each dollar received from American exports in 1991 stimulated another \$1.40, or a total of about \$54 billion in supporting activities to produce U.S. exports.

Agricultural exports generated an estimated 860,000 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. Of the 860,000 full-time civilian jobs related to exports, more than 314,000 U.S. farmworkers—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 for 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. In fiscal year 1992, U.S. farm sales abroad totaled \$42.4 billion. The resulting positive agricultural trade balance for fiscal year 1992

swelled to \$18 billion according to recent agricultural service analysis. United States 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. 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. United States 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 one of the United States' largest and fastest growing high value-added markets with 1992 exports expected to reach and 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 United States agricultural export sales to Mexico versus 40 percent in 1987. Much of this growth is due to Mexico's trade liberalization effort that began in 1987 as well as the economic revitalization that occurred as a result of President Salinas' structural reform.

Unfortunately bulk commodity trade has not been liberalized. Therefore, they have shown little growth over the past few years, a situation that NAFTA will change allowing for more liberalized trade in bulk commodities.

Passage of NAFTA is of utmost importance to the agricultural community. We agree it will only have a positive impact on the United States. We strongly believe that defeat of NAFTA will cause irreparable damage impacting our ability to continue to export 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 market for U.S. food products and commodities if the trade pact is passed by Congress. The U.S. economy can ill afford the long-term impact if the agreement is defeated in Congress—America could put in jeopardy our third largest export market.

Having met with President Salinas, top Mexican officials and executives in the Mexican business community, I know they have placed a lot of political stock on the passage of NAFTA. The Salinas Government is the friendliest, most cooperative government we have ever had in a relationship with Mexico. What message do we send these leaders if Congress fails to ratify NAFTA?

Forty-two lead State agricultural officials have endorsed NAFTA and called on Congress to pass the implementing legislation. I would refer you to my written statement for a list of those officials and their comments.

In conclusion, Mr. Chairman, 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 greater diversities of U.S. food and feed products.

For all these reasons, Mr. Chairman I would respectfully urge Members of Congress to give their support to NAFTA. A vote for NAFTA is a vote for farm exports, for jobs, for greater prosperity. Let us seize the opportunity for farmers and for our economy.

Thank you, Mr. Chairman, for the opportunity to express the positive aspects of NAFTA with regard to American agriculture and to present NASDA's support for the trade agreement. I look forward to working with members of this committee on this and other important issues.

Thank you.

[The prepared statement of Mr. Walker appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. I, unfortunately, neglected to mention to our guests that we try to operate under our usual order of business in allowing you 5 minutes.

Mr. WALKER. I observed the light, Mr. Chairman. Thank you for reminding me.

The CHAIRMAN. We won't cut you off in midsentence, but to the extent possible, if you could, we would appreciate it if you try and abide by the 5-minute rule.

Next, Dr. Roberts.

#### **STATEMENT OF MARTHA R. ROBERTS, DEPUTY COMMISSIONER, FOOD SAFETY, FLORIDA DEPARTMENT OF AGRICULTURE AND CONSUMER SERVICES**

Ms. ROBERTS. Mr. Chairman and members of the committee, all of us in Florida agriculture thank you for the opportunity to appear before you to present, again, our united position in opposition to the North American Free-Trade Agreement as now written. Commissioner Bob Crawford commends you for your continued leadership to ensure that the voices of all of U.S. agriculture are heard.

We are deeply concerned and deeply disappointed that our rational requests for agriculture are still unmet. We have expressed our united position too frequently before the International Trade Commission, the United States Trade Representatives and to various congressional committees since 1990.

Contrary to any rumors that may have been heard, Mr. Chairman, we regret that the problems of Florida agriculture relating to citrus, fresh fruits, vegetables, and sugar have not been met.

To some sectors of the economy, the agreement may be viewed as beneficial. According to Mr. Polopolus, noted economist in agriculture, we face a loss of 100,000 jobs. And we also face a potential loss of \$2 billion in our own agricultural economy. This price is too high, for one State and our Nation.

Since the agreement before you contains an accession clause through which other South American nations may be added, it becomes ever more critical that the language of agreement is fair, equitable, and sufficient for the future.

Florida agriculture fosters and supports international trade. We support fair-trade agreements and recognize the need for a trade agreement with our good neighbors to the south.

But NAFTA as now written and the side agreements as proposed are fundamentally flawed. Commissioner Crawford and a united Florida agriculture urge opposition to this unfair agreement.

It has been very rewarding to be told, though, our concerns are legitimate and they would be addressed, but the final agreement did not address them. The side agreements have not addressed them and, regrettably, we see no further chance for an avenue of solution. We regret also that all the efforts of Congress in implementing legislation will be insufficient to correct an agreement which must allow all three parties to agree.

Our message has been consistent: The food we produce is too precious a national resource to sacrifice. Before you in Congress is a debate on fundamental health care and health reform. I know of nothing that will prevent more chronic disease and risk of cancer than increased consumption of fruits and vegetables. This has been repeatedly stressed to us by our own National Academy of Sciences. But regrettably, the National Cancer Institute has recently released studies showing that our school children have perhaps less than two servings a day of the essential fruits and vegetables so necessary to their health. Without protection or without continued strong fruit and vegetable production, Mr. Chairman, we regret that American agriculture will be irreparably harmed.

Our latest united position, dated September 22 of last year, was endorsed by all major commodity groups in the \$6 billion, \$40 billion economic impact Florida agricultural community.

It was endorsed by our citrus, winter-produced fruits and vegetables, sugar, our Florida Farm Bureau, Florida Cattlemen's Association. All major groups have endorsed this position. We see irreparable harm without some fundamental change.

We ask specifically for a price-based mechanism. We know from history that the Canadian Free-Trade Agreement safeguard mechanisms have not worked to the benefit of American agriculture in our opinion. We think we should learn from the problems of the past to have added the specificity we needed for the solutions for the future.

We support international trade. We support an international trade agreement with our southern neighbors. We feel the language of the agreement before you is fundamentally flawed and we thank you for the opportunity to again bring the message that this NAFTA is the wrong NAFTA.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Roberts appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Dr. Roberts.

Next, Mr. Eckel.

**STATEMENT OF KEITH W. ECKEL, PRESIDENT, PENNSYLVANIA FARM BUREAU, AND MEMBER, BOARD OF DIRECTORS, AMERICAN FARM BUREAU FEDERATION**

Mr. ECKEL. Thank you, Mr. Chairman. My name is Keith Eckel and I am president of the Pennsylvania Farm Bureau and it is nice to see you again.

The CHAIRMAN. Thank you.

Mr. ECKEL. Today I appear before you as the representative of the American Farm Bureau Federation on which I serve on the board of directors and executive committee. I grow tomatoes, sweet corn, corn for grain, and pumpkins on my farm in Clarks Summit, Pennsylvania.

Today I also represent agriculture for NAFTA, a coalition of 167 agricultural organizations supporting the North American Free-Trade Agreement. In the interests of time, I will summarize my comments and request that the complete text be included in the hearing record.

The American Farm Bureau Federation the Nation's largest organization of farmers and ranchers appreciate this opportunity to present its views in support of 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 market for United States 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 United States producers; it can get them elsewhere and probably will if we reject NAFTA.

Virtually all impartial studies have shown NAFTA to be a net job-creator for our Nation and good for our overall economy.

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 United States companies moving to Mexico, NAFTA is not the reason. In fact, NAFTA can help address the problem. It opens the Mexican market to United States exports, thus allowing companies to stay home and still supply products to Mexico; it eliminates the maquiladora program; and it will keep and 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 Mexico's pesticide rules are too lax and that Mexico still allows DDT to be used. The GAO report often cited should be read before this argument is swallowed. GAO found the United States 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 others in my prepared text. 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 the United States and Mexico.

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 in our favor, and we anticipate further growth in our trade surplus with Mexico if NAFTA is approved.

Mr. Chairman, NAFTA is about our future, a better future for America and Mexico, a better future for American producers. We appreciate this time to visit with you this morning about that future.

[The prepared statement of Mr. Eckel appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Swenson of the National Farmers Union.

#### **STATEMENT OF LELAND H. SWENSON, PRESIDENT, NATIONAL FARMERS UNION**

Mr. SWENSON. Thank you, Mr. Chairman and members of the committee. I also commend you for holding this very important hearing and in listening to the position of the 250,000 farm ranch and rural families of the National Farmers Union on the proposed NAFTA agreement. The National Farmers Union is an advocate of trade and supports 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 producers and promotes environmentally sound production methods and also provides assur-

ances to consumers in regard to the quality and the safety of food that they have come to depend upon from our producers.

We support trade which advances the social and economic structure of all people within the participating countries. From our review of the proposed NAFTA agreement, and its side agreements, it comes up well short of these objectives and lacks many of the safeguards needed to make it a good trade agreement.

The proposed agricultural agreement between the United States and Mexico lacks significant safeguards for producers and consumers. It is clear that we did not learn from the errors of the United States-Canadian trade agreement but only expanded upon them. Canada will maintain its transportation assistance system and pricing system in marketing its wheat to Mexico as well as the United States.

I refer to my written testimony on chart A-2. The increase of Durum as well as all wheat and barley in the United States from Canada since implementation of the Canadian Free-Trade Agreement shows that all wheat has gone up 76 percent; barley, 213 percent; Durum wheat, 130 percent, having a significant negative impact on the economic situation of wheat producers in this country.

Let me say to you that this problem was not that relevant before the Canadian Free-Trade Agreement so the implementation of the Canadian Free-Trade Agreement which is encompassed in the NAFTA agreement continues to expand upon this problem.

As we take a look, at least the admission by the Clinton administration that this is a problem, it was very pleasing not only at the hearings before the Senate Agriculture Committee but this weekend on TV to hear Ambassador Kantor admit that we do have a problem in the level of import surges occurring with Canada in regards to wheat moving into this country and that we may have to implement a section 22 to try to stop this flow from having the negative impact. And we are pleased about that.

We also note that the Clinton administration has announced Mexico's eligibility on the export enhancement program as a recipient to offset Canada taking over 70 percent of the Mexican wheat market through its transportation subsidies and pricing mechanisms. Yet because of the lack of end-use certificates, there is no way to ensure that the United States is not exporting Canadian wheat that has moved into this country through that program at taxpayers' expense.

In addition, we take a look at the NAFTA agreement as eliminating the tool that the Clinton administration is proposing to use, and that is a section 22 that would be able to stop potentially transshipment of product from Mexico into the United States because, as we take a look again, at the implementation of the Canadian Free-Trade Agreement and I draw your attention to chart A-3 of my testimony which shows that under the 3 years of the Canadian Free-Trade Agreement, peanut imports have increased—peanut products, peanut butter and peanut paste have increased 567 percent.

Let me say to you, Mr. Chairman and members of the committee, Canada doesn't grow any peanuts, so they have become a transshipment base for processed product. If you take a look at sugar products, the imports through Canada have gone up 3,021 percent

in the years of the inaction of the Canadian Free-Trade Agreement. It clearly is a transshipment of products through Canada that are significantly processed and can be expanded upon by their agricultural industry under the NAFTA agreement.

And it can be a severe detriment not only to producers but our processing industry as well. Let me say that another very important safeguard that we feel is missing is the insurance of both quality and quantity of border inspection—and I know that doesn't come under the parameters of this committee, but I think it needs to be called to your attention, that consumers in this country have come to depend upon a reliable supply of our product in this country and yet because there is no labeling requirements, there is no end-use certificate requirements, paperwork at the border—the inspection at the border has pretty much turned into paperwork inspection.

We have already seen where transshipment of Australian beef has come through Canada and thus circumvented import quotas, as well as loss of tariffs being a detriment to the budget of our country as well. And we see that potentially increasing under the NAFTA agreement and thus requiring, as we could see put in place, a larger NAFTA tax than what will be necessary to deal with the retraining and the loss of jobs that will occur as even the agreement is proposed as it exists.

I could go on, Mr. Chairman, and talk about the lack of other safeguards in regards to pesticides and insecticides used on fruits, vegetables, and grains. I am sure many of those will be touched on by other members of the panel. But let me just say, we believe it is better to renegotiate a new NAFTA which begins to address the safeguards and to continue to build upon the expansion of trade as it has occurred with Mexico without NAFTA than to implement the NAFTA as it exists today and try to correct the errors that we see within the proposal as we have been unable to correct the errors within the Canadian Free-Trade Agreement.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Swenson appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you.

Next, Dr. Schuh.

**STATEMENT OF G. EDWARD SCHUH, DEAN AND PROFESSOR,  
HERBERT H. HUMPHREY INSTITUTE OF PUBLIC AFFAIRS,  
UNIVERSITY OF MINNESOTA**

Mr. SCHUH. Mr. Chairman and members of the committee, I appreciate the opportunity to appear once again to offer testimony on the North American Free-Trade Agreement. As you know, I appeared before the committee just a little more than a year ago to testify on this important agreement. At that time we were just beginning the work of a task force which I chaired, appointed by the Council for Agricultural Science and Technology, whose assignment was to assess the impact of the agreement on U.S. agriculture. I thus addressed at that time what I believed would be some of the important issues arising from the agreement.

The task force has now completed its work. The formal remarks I have submitted for the record consist of the executive summary



of that report. The council would also like the entire report to become part of the record. And should that be possible, to have it as an attachment to my prepared statement.

The CHAIRMAN. Without objection, the summary will be a part of the record. You may proceed.

Mr. SCHUH. In my oral comments today, I am not going to go over in detail what we have included in the executive summary. What I would like to do is pick out three or four points and focus on them.

I would like to begin, Mr. Chairman, with the issue of employment because it seems to be one of the major issues as people talk about the agreement. Opponents to the agreement argue for the continuation of protectionist measures on the grounds that they are needed if we are to protect jobs in the United States.

What I would argue is we should just look south of the border and see what happens as a consequence of protectionism. The Latin American countries have throughout the post-World War II period pursued highly protectionist policies that were designed to foment import-substituting industrialization.

And what they have learned by painful experience is that protectionism does not work. Those economies have been stagnant throughout this period, employment growth has been very stagnant, and the policies have led to impoverishment of the poor. The interesting thing is that the countries of that region have learned that those policies don't work, as have other countries around the world. It is somewhat puzzling that we should decide now that we should start insisting on protectionist policies rather than to continue to press for freer trade.

The countries of Latin America have learned from their painful experience. They are opening their economies and they are reaping very large benefits from it. That includes, Chile, Mexico, and in recent years, Argentina.

I am rather interested that people opposed to NAFTA tend to say they are not opposed to free trade and are not protectionist, but all they want is some protection. One can't have it both ways.

The second point I would like to make is that the reduction in barriers to trade almost always imposes painful adjustments on specific groups, and on particular groups who tend to be well organized. If one does single-entry bookkeeping, that can end up painting a rather bleak picture. But one has to do double-entry bookkeeping and look at the gains that come on the other side.

The political issue—what makes it politically difficult—is that those who suffer tend to be well organized. The benefits are widely diffused in the economy since it is the consumers who ultimately tend to get them. Consumers tend not to be organized and so it makes it very difficult politically to get support for trade liberalization.

The third point is that the challenge to policymakers in gaining approval of the agreement, and in realizing its full benefits, is to deal with the adjustment problems faced by specific producer groups or by labor groups. It is unfortunate that we tend to neglect this issue in most discussions of trade liberalization. As I noted earlier, there are clearly losers in any significant reduction in any barriers to trade. It is simply not sound policy to ignore the con-

sequences to those who bear its costs because the benefits are widely diffused in the economy. What we need are retraining programs, programs to relocate producers and workers displaced by the reduction in barriers to trade, and programs that sustain these displaced workers while they seek new employment. These programs can be implemented independently of the agreement, but they should be an important part of our domestic policy. On a related issue, we should assure that our producers have the latest in new production technology. It is this technology and the increase in productivity it brings that will ultimately protect jobs and our economy.

In the case of agriculture, that means that we need to sustain and increase our investment in agricultural research. That will be the key to raising productivity and to developing alternative crops that can substitute the commodities the Mexicans, in this case, can produce more efficiently.

Of course, that raises the whole issue of how do we compete? We compete in this country on the basis of productivity. If it weren't that we competed on the basis of productivity, and if wage rates were the only issue, most of our manufacturing sector would have long since left for Haiti, for India, for Bangladesh, and for countries such as that. And we know that isn't the case.

Mr. Chairman, let me wrap up with a final statement. The North American Free-Trade Agreement is one of the most innovative ever to be negotiated. It is the first to have environmental provisions included. It is the first to have labor issues spelled out in detail. It is the first to insist on scientific conditions in evaluating nontariff barriers to trade. It is the first to provide for the extensive consultation that it provides for. And it is the first to provide for trade retaliation as a means of enforcing the terms of the agreement. It is difficult to imagine an agreement with more safeguards in it.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Schuh appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Huber.

#### **STATEMENT OF STEWART G. HUBER, PRESIDENT, FARMERS UNION MILK MARKETING COOPERATIVE**

Mr. HUBER. Mr. Chairman and members of the committee, my name is Stewart Huber. I am president of the Farmers Union Milk Marketing Cooperative. I am also a Wisconsin dairy farmer. On behalf of our more than 10,900 dairy producers in eight Midwest States, we thank you for holding this hearing and allowing us to testify here today.

I will summarize our paper's major points and request our detailed written statement and study involving bovine tuberculosis be entered into the record.

At the outset, let me say our initial reaction to this proposed agreement was to support any effort that would affect freer and fairer trade among Canada, Mexico, and the United States as NAFTA purports to do. Our analysis today is that the final document unfortunately raises far greater risks than opportunities for our producer members and that a completely new agreement should be negotiated to fix the proposed agreement's serious flaws.

Our paper points to the fact that under this trilateral agreement, our members' basic protections under section 22 have been traded away while Canada has locked United States producers out of its market by retaining article 11.

It is wrong to put our producers at risk through an uneven tariffication process while our neighbors to the north enjoy the luxury of a completely closed dairy marketplace.

We should like particularly to call the committee's attention to our paper's section entitled "Huge Loopholes in Rules of Origin." It appears NAFTA has created a huge loophole for milk produced outside of North America by exempting chocolate crumb, mixtures of animal and vegetable fats and oils, and sugar confectioneries not containing cocoa from rules of origin. We learned of these examples from a March 1993, ERS analysis, which said all dairy inputs for these products may be of non-United States-Mexican origin.

Our written statement cites the specific amounts of butter fat and milk powder these classes of products may contain directly from the Harmonized Tariff Schedule of the United States.

And you will note they are substantial percentages. We are frankly shocked at these gigantic exceptions have found their way back into the North American Free-Trade Agreement after the industry and the Congress thought they had finally locked them up for good in the 1960's. Over time, using Mexico as a staging area, multinationals would ship unlimited quantities of milk powder into our market, camouflaged as other products, coming from anyplace in the world.

U.S. milk producers would face price competition from a fire sale, subsidized, and globalized world market that is neither free nor fair. By exempting rules of origin, on these kinds of products, NAFTA becomes a blueprint for the demise of the dairy industry in the Upper Middle West as we know it.

Our paper also points to the woefully inadequate rules of origin provisions for products not exempted. Since milk products are very fungible and no verification procedures have been provided for, we believe the potential for wholesale violations are enormous. NAFTA, too, perpetuates the unfortunate double standard on food safety which holds U.S. producers to an increasingly stiff set of standards and imports to a much lower standard.

Again, no verification authorities for foreign farms or plants put consumers and producers alike at risk to pesticides, pathogens, and even diseases such as bovine tuberculosis that have been eliminated in the United States for years.

We call attention to the important study by Dr. Milton Hallberg at Pennsylvania State University. It states that the market potential for dairy in Mexico has been vastly overstated. And finally, our producers are being subjected to increasingly costly assessments for promotion, budget reconciliation, inspection, et cetera not borne by new imports under NAFTA on a milk equivalent basis.

For all of the above reasons, but particularly for the rules of origin exemption time bomb, we submit that this agreement should be renegotiated.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Huber appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir.  
Next, Mr. Barr of the National Milk Producers.

**STATEMENT OF JAMES C. BARR, CHIEF EXECUTIVE OFFICER,  
NATIONAL MILK PRODUCERS FEDERATION**

Mr. BARR. Thank you very much, Mr. Chairman. I am James C. Barr, chief executive officer of the National Milk Producers Federation. I appreciate this opportunity to testify before the committee this morning and join the others in complementing you on the leadership that you have constantly displayed in this particular area.

The National Milk Producers Federation strongly supports the North American Free-Trade Agreement and I will give you a few reasons why we do. NAFTA will increase net exports of U.S. milk and dairy products and help strengthen U.S. milk prices. The National Milk Producers Federation estimates that by doing so, NAFTA would put as much as \$1 billion more income into U.S. dairy farmers' pockets.

A recent, widely quoted study from Ohio State University determined that for every \$1 million in dairy product output, about 48 jobs were created somewhere in the U.S. economy. Together, these studies imply that as many as 10,000 new jobs could be generated due to the positive impact on the U.S. dairy industry.

Mexico is the United States dairy industry's largest export market. It has accounted for almost 30 percent of the total value of U.S. dairy exports during fiscal year 1991-92.

Now let's take a look at some of the concerns that have been expressed here and by others with respect to the impact of a NAFTA agreement on dairy.

In a so-called sanitary and phytosanitary standards maintained by individual countries, these provisions essentially require the health-related sanitary and phytosanitary standards maintained with respect to trade between NAFTA countries to: One, based on scientific evidence; two, not be applied in an arbitrary or discriminatory manner; three, be developed based on the principle of risk assessment; and four, be applied only to the extent necessary to achieve a clearly understood level of protection. In other words, the NAFTA provisions on standards will protect the right of the U.S. to maintain the level of protection and health protection it chooses. It will simply be required to relate its standards to that chosen level of health protection with scientific justification.

The only NAFTA provisions that relate to market access in dairy products are those that will affect bilateral dairy trade between the United States and Mexico. Canada did not agree to make any market access concessions in the NAFTA negotiations as far as dairy products are concerned. Therefore, Canadian dairy exports to Mexico and the United States will continue to face the same restrictions under the NAFTA that they do now.

The so-called Canadian exclusion is, quite frankly, a disappointing aspect about NAFTA because the United States dairy products would be very competitive in the Canadian market. This does not change our position that NAFTA will be beneficial to our country.

Now, let's take a look at the so-called rules of origin or the potential transshipment of product from Mexico to the United States by way of a third country. The NAFTA rules of origin would largely

prevent this from occurring. These rules would impose what is called a cow-forward rule. This means that all of the dairy components in a dairy product must come from Mexican cows in order for that product to be considered of Mexican origin, and thus eligible to enter the United States on NAFTA preferential terms.

On the other hand, a product such as cheese produced from Mexican raw milk, but fortified with nonfat dry milk from New Zealand, would be considered to come from that country and thus be subject to the current United States import quotas that apply to dairy products from New Zealand.

Those rules of origin would be enforced by the U.S. Customs Service and it is my understanding they have a very good track record in this area. Implementation of NAFTA will give United States milk and dairy products certain preferences in the Mexican market. United States shares of Mexico's milk and dairy product markets are likely to increase as a result.

In 1990, Mexico imported about 635 million pounds of nonfat dry milk and about 60 million pounds of butter oil from all countries. On the other hand, Mexico is not likely to import large quantities of dairy products into the United States under NAFTA. For one thing, Mexico is not likely to gain grade A status for its dairy products for some time, which will prevent it from even being able to export fluid milk, yogurt, and cottage cheese to the United States. Also, apart from some soft American cheeses, it doesn't produce cheese varieties in demand in the United States.

Furthermore, NAFTA will not alter the fundamental economics of producing milk in Mexico which have kept that country a major deficit milk producing country. Overall, Mr. Chairman, NAFTA will be a major plus for the U.S. dairy industry.

Thank you.

[The prepared statement of Mr. Barr appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, and I thank the panel. Is there any member that might have a question to any member of the panel?

Mrs. Thurman.

Mrs. THURMAN. Mr. Swenson, would you go back to your presentation and maybe look at one of the charts you didn't talk about. I think it has to do with some of the tariffs issues and maybe just go over a little bit as it relates to different commodities.

Mr. SWENSON. Thank you. As part of the testimony, Chart A-1 is a chart right out of the NAFTA proposal which lists the new tariffs that will be phased out. And there is a number of them on which the access will be more limited and in fact the tariffs higher than what exist today. And that is what this chart points out in this comparison.

Mrs. THURMAN. So generally, then, what you are saying in actual instances where we have so many metric tons going down there, today we have limited ourselves in the amount of metric tons that can go and we have actually put a higher tariff, which kind of brings me to a question then.

Doesn't that put us into the situation of going to other countries to give us that same product at a lower price because the tariff would not be the same?

Mr. SWENSON. The result is two phased. One is, let's use the case of dry lima beans. It will provide us less access than what we currently have today in an export market. It will allow then, during that period of time for Mexico to go to other countries of which can make that product available to them.

And so by the time the phase-out of tariff occurs and our market access equals that to what we have today and export today, they have displaced our market with the dry lima beans in another market. We are very concerned with the amount of transition that has occurred in this agreement.

Mrs. THURMAN. Dr. Roberts, I know you over the years and one of the issues you raise in yours is food safety. I know that you have served on an international board in food safety. What do you see under the agreement when we talk about trade barriers and what happens to food safety if something were raised under a trade barrier issue?

Ms. ROBERTS. Quite frankly, we are concerned with what seems to be some conflict of language within part of the agreement. Of course it states that any individual State or country can have appropriate standards relating to phytosanitary and sanitary regulations, yet within another portion of the agreement it states that, of course, those must be scientifically based which we strongly support, but there seems to be some conflicting language that we have had various attorneys to look at that may actually view them as nontariff trade barriers.

Food safety is too important to compromise. And again, just microbial food illnesses cause up to an estimated 81 million cases with an estimated \$4 million to \$10 million impact. It is something we really need to look at again as far as reducing our costs of health care.

Mrs. THURMAN. Mr. Huber, just one question. I noticed in one of the testimonies that Wisconsin, the agriculture commissioner, whatever they are called there, is actually supporting this and yet you are from Wisconsin and seem to be against it.

Is there a growing concern in Wisconsin now that it is getting closer or are you just standing on your own? Are you getting any other support in Wisconsin?

Mr. HUBER. I want you to know that there is a growing concern, particularly among the producers of dairy, that NAFTA is an uneven agreement and it is going to put us particularly at risk. Particularly because we live in an area of the country that depends so strongly on the manufacturing market. We tried to point those concerns out in our paper.

Mrs. THURMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman. As long as we are talking Wisconsin and dairy, I think it is only proper that I continue.

First of all, let me say this publicly to you, Jim. I think the National Milk Producers Federation ought to be commended for the position you have taken and I mean that very sincerely. For years, I have pleaded with your organization to bring the dairy industry

into the 21st Century or at least the 20th Century. I think recognizing the reality of global markets is a step in that direction.

I am sure this wasn't easy. I am sure it was with some controversy. I want you to know it has been recognized at least by some of us. I want to follow this up with you because I knew—sooner or later—I knew we would have a dairy situation he would disagree on.

Today, Mexico produces half of their dairy usage. They meet that gap by European dumping. Under article 11, which Canada has agreed to withdraw from the dairy global market which means that if NAFTA passes, the United States and the United States alone has the opportunity to increase dairy sales to Mexico.

What am I missing?

Mr. HUBER. I think that our paper really concentrates on the idea that the rules of origin exception here for certain kinds of products will mean that there are non-Mexican origin products that will be shipped into the United States from the cheapest sources in the world, from Argentina, from New Zealand and elsewhere. That is our major concern.

Mr. GUNDERSON. See, I don't follow that. I am confused because everything I have heard is that the rules of origin here are the best rules of origin of any treaty ever negotiated anywhere. That the only exception in the area of confectionery chocolate, you call it chocolate crumb. That exception, very frankly, was put in because, in all due respect, the United States candy industry didn't want to have to use Mexican cocoa that they wanted a higher quality cocoa from somebody else.

And the chocolate crumb you are talking about, even if it were to come in as you indicate in your paper, is over 90 or 95 percent nondairy product. So, I mean, I am really confused as to, first of all, I don't think it is a threat because of the small percentage of butter fat that is included. Second, it is not a threat because, very frankly, the American candy and food companies don't want to use Mexican cocoa or Mexican chocolate, they want to use a higher quality from somebody else.

What am I missing?

Mr. HUBER. Congressman, if you would refer to our paper on page 3, if you would, please.

Mr. GUNDERSON. I got it.

Mr. HUBER. You will see that it is not 55 percent of nondairy but not over 45 percent of butter fat and nonfat and anhydrous butter fat which can under this rule, and that is a substantial loophole. It was the loophole that we tried and we have tried successfully with the Congress to close in the 1960's when this became such a problem.

Mr. GUNDERSON. So you are saying this is in effect today?

Mr. HUBER. This is a repeat performance of what went on in the 1960's when they had the great loophole and why—I ask the Congress—I ask you quite frankly, why is this included?

Mr. GUNDERSON. Stew, is this in effect today?

Mr. HUBER. No, certainly we are under quota, you understand, from some—from certain countries around the world who have quotas—

Mr. GUNDERSON. We are not worried about other quotas. What we are talking about is Mexico. Do we have any attempts by Mexican companies today—do they exceed their present quota on chocolate crumb coming into this country?

Mr. HUBER. Our point is that, over time, these quantities are going to come from non-Mexican sources. We are not concerned particularly about the Mexican source. We want to make it clear that this in effect is globalizing the market and bringing our producers in real jeopardy, pricewise, to the cheapest producers in the world.

Mr. GUNDERSON. I think Mr. Barr wants to comment on this.

Mr. BARR. The only point I would raise, Mr. Gunderson, is we have a very large section 22 quota on chocolate crumb right now, and that quota is not even close to getting filled on an annual basis from a number of countries that are authorized to ship chocolate crumb into the United States under section 22 quotas.

Mr. GUNDERSON. So you do not see this as a threat to the dairy industry in the United States.

Mr. BARR. I would agree with you, Mr. Gunderson, that this treaty has the strongest transshipment or rules of origins provisions of any trade agreement and it is a tribute to, among other things, the chairman who worked so hard with us and others to try to make sure that those rules of origin provisions are as strong as they are.

Mr. PENNY. Can I interject at this point some of the concerns raised earlier today with the experience with Canada on transshipment and in terms of provisions of this treaty? Would you say that it has tightened those policies not only as pertains to Mexico but also the Canadian situation?

Mr. BARR. I would say so, Mr. Penny, in addition to the fact that there were a number of products developed by New Zealand and others back in the 1970's that were developed purposely to circumvent section 22 quotas and as they were developed, they were added under quota in our offer sheet to the—under the GATT, we have included all of those as potential expansion opportunities for dairy imports into the United States under our commitments to the GATT and New Zealand and others have indicated that these products are inconsequential as far as they are concerned. So, again, I fail to see the threat is there.

Mr. GUNDERSON. In fairness, Mr. Chairman, if you give me 30 seconds more, I will let Mr. Huber say more.

The CHAIRMAN. I saw Mr. Huber wanted to add something.

Mr. HUBER. I want to clarify the fact that we are not talking only about chocolate crumb, we are talking about several classes of different kinds of dairy products. What we are particularly concerned about is the schedule that is involved in sugar confectionery. That is the biggest loophole as we see it, and it is wide open and it should not be. It has happened under this and we don't know why it was in the North American Free-Trade Agreement.

Mr. GUNDERSON. I was going to give you the last word, but I would repeat what I said earlier. It is my understanding that the sugar confectionery loophole you call it, it is there because the American sugar companies—candy companies asked that it be there because they didn't want to be obligated under the rules of origin to use a product from Mexico that was low grade.



I yield back the balance of my time, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Stenholm.

Mr. STENHOLM. I want to pursue this a little further, and I would like to ask Dr. Schuh if you have any comments on this country of origin issue because this has been a point that has been of particular concern to me. I have listened to the discussions both ways.

You have heard very strong statements both ways, Mr. Huber. You state that this is a giant loophole. I, for the life of me, cannot find this as a giant loophole. Dr. Schuh, would you have anything to add to this?

Mr. SCHUH. The only thing I could add is to repeat what has already been said. This is one of the tightest systems to avoid ways around the regulations that there has been in any kind of trade agreement so far. I thought the comment that it was put in at the request of the sugar producers was an important point. I was not aware of that, but I think that's a very persuasive point.

Mr. STENHOLM. Mr. Eckel, do you have any comment on your analysis of the country of origin, whether we have a giant loophole or whether this is one of the better treaties negotiated as far as country of origin?

Mr. ECKEL. Congressman Stenholm, I think this is the strongest country of origin agreement that we have ever negotiated. I do serve on the APAC, and I think we have learned from past agreements, for instance. Earlier we heard reference to the peanut problem from Canada. That is explicitly addressed in the NAFTA agreement and that would not be permitted from Mexico, for instance. That is just one illustration of its strength.

The other concept that I don't think that we have mentioned is that the tariff levels of Mexico are 2½ times greater than the United States. So in many cases, one would ask the question: "Why would you want to go through Mexico into the United States when you are already dealing with levels much higher than that?"

So I think that there are two levels to deal with those questions and concerns about third countries coming in with products through transshipments. The reference was made earlier also to Australian beef and that reference would indicate an illegal act now occurring through Canada. And if that is the case, it certainly needs to be attacked. That also would be illegal through NAFTA.

The last point I would make on this issue is that many times we look at problems with the Canadian agreement, and wheat is a problem. We acknowledge that it needs to be dealt with. But the solution certainly could be worse than the cure. If we suggest that we defeat NAFTA in order to deal with the Canadian wheat problem, we have given a double whammy to our wheat producers here in the United States.

Mr. STENHOLM. Dr. Roberts, if we defeat NAFTA, how do we improve our food safety conditions in the United States?

Ms. ROBERTS. First of all, I think we will have increased trade with Mexico whether or not we have NAFTA, so we are not trying to say that our food safety problems relate solely to international trade. We have to apply appropriate funding to food safety agencies. We have to require of our Federal and State agencies involved in food safety, accountability of the protection of the American pub-

lic and we have to insist upon some priority placed on food safety programs.

I was not attributing all food safety problems to NAFTA. It is a part of this problem and we have to have priority placed on it whether it is international or domestically produced.

Mr. STENHOLM. I was asking for a personal opinion from you. Let me phrase it a little differently. Do you think it will make any difference in the short term or the long term if NAFTA passes or if it does not pass regarding international cooperation dealing with food safety issues?

Ms. ROBERTS. We will insist upon increased cooperation with all our trading partners. We would hope, though, that NAFTA would not decrease our ability to handle the volume we have before us.

On food safety, we are totally inadequate with the Government agencies to address it. We have to educate our general public more and more. We are very pleased to see some of the information statements to the general public on labeling, but we have to do a much better job than we are now.

A dramatically increased level of imports will merely add to the burden we have as far as properly regulating and ensuring safety of food but we would prefer that there is added to NAFTA some strict requirement of enforcement on all parties to any trade agreements.

We are very pleased to see that there have been some debate on the issues brought forth in the labor and environmental side agreements. We just do not feel that it went far enough and we feel it is very important that we have equalization of food safety and hygiene, sanitary and phytosanitary requirements with all trading partners.

Mr. STENHOLM. Thank you.

The CHAIRMAN. Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

I have some concern about the loss of revenue or potential loss of revenue over the next 5 years due to the reduced tariffs, some were saying as much as \$2 billion to \$2.5 billion. The administration and others are talking about increased taxes or user fees.

My question essentially is perhaps to you, Mr. Eckel, to begin with and then perhaps to other members of the panel. Has your organization taken any position on offsetting the lost revenue because of the lower tariffs?

Mr. ECKEL. We have begun to study that issue and haven't taken a final position. However, one of our initial reactions is that the increased economic growth could certainly offset any losses in revenue with increased tax revenues as a result of that growth.

I think you also have to look at the alternative that if that were the reason that we were to defeat NAFTA, the loss in economic growth in this country, the loss of revenues as trade fell off could have a very negative impact on us.

So I don't think that should be the critical issue; however, I would suggest as well as I am sure most of the panel knows, American Farm Bureau has long been an advocate for fiscal responsibility and balancing of the budget, so it is a concern that we are looking at. But those are our initial reactions to that.

Mr. BARRETT. Will your organization have a position statement shortly with regard to that question?

Mr. ECKEL. I would say that we will have a conclusion to that probably in the next 2 weeks.

Mr. BARRETT. Thank you. May I just ask the same question to the other members of the panel?

Mr. Barr, may we start with you?

Mr. BARR. Well, only to respond with respect to dairy, there is a very small amount, almost no product imported into the United States right now from Mexico; so it would be a direct offset, a big gain to the United States, because of increased economic impact of additional jobs being created in the United States and product going from the United States down into Mexico. So as far as dairy specifically is concerned, that would not be a problem. Right.

Mr. BARRETT. Thank you.

Dr. Schuh.

Mr. SCHUH. Mr. Congressman, I think the answer is in the issue of growth. One point that I made in my testimony but didn't make orally is that most estimates of the impact of the agreement come from a static perspective. And they fail to take into account that such agreements tend to increase income. That gets generated from freer trade. When you look at that, that is where the real benefits come.

And we think that is particularly significant in the case of agriculture because this country is facing probably a 40-million-ton reduction in markets in the former Soviet Union. Any kind of increased income we can get in Mexico to generate increased demand for agricultural output will be very significant. So I think it is the increased growth that you are going to get, the increased income that will provide tax revenue to offset the decline in tariffs.

Thank you.

Mr. BARRETT. Thank you.

Anyone else on the panel?

Dr. Roberts.

Ms. ROBERTS. I am very concerned when we are talking about lost revenues on tariffs, the tariffs on fruits and vegetables at the moment are of course very modest and very small.

But we are talking about lost revenues on tariffs, so I think we need to also look at the actual cost of implementation of the agreement itself.

Where are we going to get what I am told by Congressman Gephardt is an estimated \$35 to \$40 billion on implementation of the agreement itself and where are the funds going to come for the retraining of the 50,000 to 100,000 workers that Florida is anticipating losing?

Those workers in the citrus industry earn an average of \$9.50 an hour. I mean they are not minimum-wage farmworkers. And offset tariffs also increase costs of implementation also.

Mr. BARRETT. And perhaps a little different situation in your particular part of the country with reference to this question. Do you not?

Ms. ROBERTS. Yes, we do. And we are deeply concerned as to what sort of funding will there be for the cost of implementation of this act if it goes through as it is currently written. We were

very pleased to see that Canadian leaders were wanting to possibly renegotiate certain portions of this.

Mr. BARRETT. Thank you.

Mr. Swenson.

Mr. SWENSON. Thank you, Mr. Congressman. I would say that the reality of the cost of the whole implementation retraining program, the whole aspect of NAFTA, will not be offset by increased economic growth, especially if you look at all the studies in regard to agriculture. They show that minimal or moderate gains will be made in the agricultural sector.

I think the commodity held in the highest ranking of greatest return is that of corn which shows that there may be a 6 to 9 cents a bushel gain with the complete implementation of NAFTA. That is a commodity that is held up and waived by everybody as the commodity in agriculture that will have the most to gain. But we have greater fluctuations than that in the market, just about daily, because of weather forecasts and announcements of what the carry-over levels will be than what we will see of benefit.

I think the real cost is going to come down to additional taxes. Will those taxes potentially impact the competitiveness of agriculture? Will we see it in a proposed barge tax increase and other aspects of where this money will be raised?

Another big question is: Will it include displaced agricultural producers?

We hear a lot about agri-industry and the displacement of those workers and other job-related work. How about those agricultural producers that are displaced? Will they be included in retraining and relocation as well?

Mr. BARRETT. Thank you. I appreciate that perspective.

My time has expired but the question, Mr. Swenson, has your organization taken a position? Yes or no.

Mr. SWENSON. We would like to see NAFTA renegotiated and then begin to address whether it is going to take more taxes.

Mr. BARRETT. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. We have a vote.

Mr. PENNY. Not yet.

The CHAIRMAN. The red light is on. Somebody check.

Mr. Penny or Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman.

I want to address my first question to Commissioner Walker. Or is it Secretary Walker?

Mr. WALKER. Secretary Walker.

Mr. POMEROY. As a regulating agricultural official, do you acknowledge that there may be some Canadian grain exported under the United States EEP program in light of our failure to impose end-use certificates on Canadian imports?

Mr. WALKER. There "may be"? Is that the question?

Mr. POMEROY. Yes. There may be.

Mr. WALKER. Again, I am not quite certain whether there may be or not, frankly.

Mr. POMEROY. I will tell you that I happen to know the North Dakota Commissioner of Agriculture is rather adamant in her opposition to the North American Free-Trade Agreement.

I testified in Congress many times representing the National Association of Insurance Commissioners, an organization of which I was formerly the president. I would never give testimony reflecting a consensus position or unanimous position, as you have this morning, without acknowledging the opposition of some of the membership.

I think you have done a disservice to North Dakota and the other States within your organization who do not feel as you have represented this morning.

Mr. WALKER. Again, I can only say that in the written statement we list the 42 secretaries and commissioners and directors of agriculture who are on record publicly in support of NAFTA.

There are several others who support NAFTA but, because their Governors do not, for political reasons, obviously, they won't come out publicly in support of NAFTA.

I am aware of three commissioners, directors, and secretaries who oppose NAFTA. And it is Commissioner Vogel of North Dakota; Commissioner Crawford in Florida; and Commissioner Todd in Alabama. And their reasons for doing that, which have been addressed this morning in terms of Florida, have to do again with the effects on certain commodities in their State.

I think Commissioner Vogel, her concern is wheat and barley and, based on some experience with Canada and apparently North Dakota is the largest producer of barley. And she is concerned that there would be a loss of market were this agreement to be adopted.

But there are only three States that are publicly opposed to NAFTA, three secretaries of agriculture. The 42-plus are strongly in support of the NAFTA. And our position paper, I think, addresses the States that—

Mr. POMEROY. I read your testimony carefully and did not see either the individuals or the basis for their opinion in opposition to NAFTA reflected.

I am just telling you that when I have testified on behalf of the States, I would not have presented testimony which reflected differently than some of the membership, especially on such an important policy question. That is the last question I have for you.

Dr. Schuh, I have enormous respect for your institution. Coming from North Dakota I am very familiar with it. I must say that I find your analogy of the United States position rejecting NAFTA to be analogous to Latin American protectionist policies, I think that, in fact, a much better analogy might be looking at Western countries that have entered free-trade agreements with countries of dramatically lower wage scales and can you tell us of other examples where we have seen this type of treaty, an industrialized westernized country entering free-trade arrangements with countries of dramatically different wage scales.

Mr. SCHUH. I think the best example is probably when Portugal went into the European Community. And that has been a very—

Mr. POMEROY. What was the transition time for the EC institution of free-trade policies with Portugal?

Mr. SCHUH. I don't remember what that transition period was. But I don't think it is nearly as long as what is provided in the North American Free-Trade Agreement.

Mr. POMEROY. Actually, it is my understanding that long after all the EC agreements began, actually in the 1950's—and, in fact, there were substantial subsidies and that, in fact, the differential in wages is about two to one compared to better than a seven to one differential here.

In fact, it is my understanding that there has never been a trade agreement reflecting an attempt to mesh economies with such a great differential in wages as is represented with NAFTA.

Mr. SCHUH. That really isn't true. The Central American Common Market Agreement provided for that wide a gap. And I would come back to, not the full history of the European Community but there is—

Mr. POMEROY. Central American, what was the leading Western industrialized country in that?

Mr. SCHUH. I am talking about the disparity in per capita income between Costa Rica and Honduras, for example, was very wide.

But on the European Community, I want to emphasize that the history of it is that the history of Portugal coming in doesn't go back to the 1950's. It only goes back 8 or 9 years.

Mr. POMEROY. Another statement in your testimony which I find grossly undersupported, particularly for someone representing the institution of the caliber which you do, is the statement on page 7, that the future answer to any difficulties caused in the agricultural sector is agricultural research to produce new commodities also, such that we might deal with the difficulties in the commodities experience.

I will tell you that the difficulties experienced in Durum wheat in North Dakota and Spring wheat in North Dakota and now barley under the Canadian Free-Trade Agreement cannot be quickly substituted through agricultural research.

If, in fact, this Nation's sugar industry would face dramatic impact under the North American Free-Trade Agreement, it is going to take one whale of a lot of agricultural research to produce for our producers and everyone involved in that industry an equivalent new agricultural commodity.

Mr. SCHUH. We may just disagree on that issue. There is nothing in my statement that says it is a quick fix at all. To the contrary, research usually takes a longer time to do.

But productivity is clearly the key to competing; and if we lose sight of that, we lose sight of something that is very important to the future of this country, Congressman.

Mr. POMEROY. I agree with you on that.

The CHAIRMAN. Mr. Ewing.

Mr. EWING. Thank you, Mr. Chairman.

I want to direct my question to Dr. Roberts and then to several others. The comment was made by—I know by you, Dr. Roberts, and I think by one or two others that we should renegotiate the free-trade agreement, the NAFTA agreement.

Do you think that is realistic?

Ms. ROBERTS. I would hope that it would be realistic, sir. We know that in the paper today even various political authorities in Canada are also hoping for renegotiation. Since you have no ability to modify the current language and since the agreement does not contain anything relative to requiring enforcement provisions by

Mexico, since it does not address, in any way, the inequities involved in—as Congressman Pomeroy mentioned on sugar where we do not include within the definition of sugar, the world practice of using high fructose corn syrup as sweeteners—there are so many provisions relating to pesticide and food safety equalization that aren't currently addressed, that we would hope that provisions could be renegotiated.

Mr. EWING. My question is: Is that realistic? We know how many years we have been working on this one, and we know that regardless of who has been the negotiator that there are many issues that some segment of our society or our economy will not agree with.

And I ask you again—you know of the change in the Mexican Government that is coming—is it realistic to think, in our lifetimes, that we could see another negotiated NAFTA treaty and bring it back here and approve it?

Ms. ROBERTS. May I answer in this way, we have spent many years in the Uruguay Round of GATT trying to make certain that appropriate language was included. We have spent a very few short years, approximately three, trying to come forward with language on NAFTA. I think it is most unrealistic that we vote a bad agreement.

Mr. EWING. This agreement, of course, can be—well, this can't be modified as we are going to vote on it now. All of these things are subject to modification by the Governments involved, as any treaty is, at a later time.

Wouldn't you think it would be a better policy to move on with the work that is done and work to modify this treaty, as the Canadians have suggested in some areas, and as I am sure we would suggest—there are some areas that in my own district that I am not happy with—and move ahead if we really want to take advantage of the gains?

Ms. ROBERTS. History would have me answer you, no. The Canadian Free-Trade Agreement is a good example. We were told that the issues regarding pesticides and phytosanitary and sanitary issues would be dealt with on a parallel basis. It has been many years, and those are still not being dealt with. We have learned by experience that the specificity of language should be there in the agreement, or it will never be dealt with and merely passed over for many years.

Mr. EWING. Would anybody else on the panel like to address that?

Yes, sir.

Mr. SWENSON. I would just say, if the political will is there, it can be renegotiated; if it is not, yes, you know, they could use it as a leverage to say, no, this is why it has to be passed.

I believe it can be renegotiated. I believe we should have a good agreement before we go ahead with the bad agreement. I think, as Dr. Roberts pointed out, the situation with the Canadian Free-Trade Agreement and the promises that were made, that, yes, corrections will be made. We have yet to see that forthcoming in any aspect.

Mr. EWING. Well, two points on that. Of course, a good agreement is in the eyes of the beholder. And there are more at the table

today who suggest that this is a good agreement than suggest that it isn't.

The second part is that the United States has, while not perfect, had economic pluses because of our free-trade agreement with Canada. It has worked to our benefit, maybe not in every area but certainly in many.

Yes, sir.

Mr. SCHUH. Mr. Congressman, I think what is interesting about the Mexican relationship is that the Mexicans are now doing what we have been asking them to do in terms of economic policy for 20 or 25 years. They are finally beginning to become more market oriented and get rid of some of the distortions.

I think if we turn the agreement down at this point, they will be insulted by it. They do have alternatives, and I think that is the important point. The Japanese are very interested in trading with Mexico, and have already invested very greatly in the Mexican economy. The Europeans are interested in trading with them. It is not at all clear to me that if we turn this agreement down that the Mexicans will come clamoring back for another try at it.

Thank you.

Mr. EWING. Yes, sir.

Mr. Eckel.

Mr. ECKEL. Well, Congressman, there is an old cliché that timing is everything; and I believe that the timing is ripe for the approval of this agreement. I don't think that we have the luxury of additional time.

I had the privilege to serve on the APAC during the past three administrations, and I would have to say that both the Clinton administration and the Bush administration have worked very hard to get an agreement that was the best that we thought we possibly could achieve.

Sitting on the APAC, being privy to the information that was provided to the private sector advisors, we realized that everything that we wanted was not put there but the vast majority was. And that is what reaching agreement is all about.

I think that the time is ripe to approve it now, and I would really hesitate to see us talk about renegotiation because I think the truth of that is we are just putting it aside at that point. We would not have an agreement in the future.

Mr. EWING. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

We still have 10 more witnesses, but are there any other members who would like to question this panel?

Mr. Farr and then Mr. English.

Mr. FARR. Thank you very much, Mr. Chairman. I apologize for arriving a little late and not hearing all the testimony. I have two particular questions relating to the area that I represent in the central part of California, which is a big flower growing region.

But the first is that we have had—in my district, 15 food processing plants have closed, 9 of which have gone to Mexico. We have 19 percent unemployment in a area heavily related to agriculture, not subsidized at all by any Federal program. The concerns in that district are that whatever we are going to be doing with NAFTA



are going to hurt us even worse, particularly in the area of worker health and safety in addition.

California, as you know, has adopted some of the strongest safety issues in the country. And what we are concerned about is the less strict pesticide law and lack enforcement. Current pesticide law in Mexico means lower operating costs and higher work health hazards. And I believe that NAFTA doesn't really provide a level playing field in this arena.

We have some chemicals that are not registered in the United States that are being used in Mexico. I think Turnix is one of those type pesticides.

And what the concern I have is what the chairman and my predecessor Congressman Panetta called on the Pesticide Committee in 1992 to address the regulatory differences in the United States and Mexico. And I wondered if any of the panelists, perhaps Secretary Walker could respond to that.

And my request is wanting to know what it would do to have an annual USDA report on the quantity and events of pesticide residues on issue that is particularly in our area on imported flowers, we are worried without origin labeling you are going to be able to have transshipment through Mexico that those growers are certainly going to have residues on them that our growers couldn't possibly get away with and no ability to essentially measure that.

And then my second question deals with patent payment discrepancies, and I would like to get into that after I have a response on this one.

Mr. WALKER. Thank you, Mr. Farr. I would just comment, I am not aware of anything in NAFTA that lessens the current stringent standards that the United States maintains with regard to trade from Mexico or anywhere else regarding health safety and the environment.

And it is the right, our right, of the United States to prohibit imports that do not meet U.S. standards. In fact, also, I think NAFTA does not limit the rights of States and local governments to impose stricter requirements as long as they are scientifically defensible.

Mr. FARR. And when those are challenged, what is the process for resolving the challenge?

Mr. WALKER. The process in terms of the States or the Federal Government or—

Mr. FARR. States. For example, if Mexico challenged our standards, California's standards, how would that be resolved and vice versa.

Mr. WALKER. Again, there is a legal process that is established for resolving disputes with regard to trade agreements and treaties that we have with Mexico or with other countries, including Canada and so on. So I mean we would follow—the party that felt that there was an issue in dispute would follow the prescribed mechanisms.

Mr. FARR. Well, for example, if we were going to challenge the pesticide worker safety laws in Mexico, we are required to wear protective clothing, we require certain standards for product handling, those standards, I don't know whether they exist or indeed whether they are enforced, and if that was to be challenged, how would that be resolved?

Mr. WALKER. Again, I think that is addressed or would be addressed in the side agreements and in the negotiations between our Governments were the agreement is to be adopted by Congress.

Mr. FARR. That has not yet been spelled out?

Mr. WALKER. I am not sure if there is specific language on this specific issue in the side agreements in terms of process for addressing—well, from either side, a concern with regard to that issue.

Mr. FARR. Does anyone else on the panel want to respond to that?

Dr. Roberts.

Ms. ROBERTS. Mr. Farr, if I could respond to that, the agreement regrettably does not speak to what we need. The omissions in the language are part of what we feel need to be renegotiated, and, more specificity regarding enforcement needs to be added.

It is not fair to the farmworkers in the United States, both on the matter of economics and safety, to enable another country with which we are establishing free trade to utilize various chemicals that our workers can not use.

I know we have been deeply concerned, and it has been before Congress that we have some stricter laws regarding the export of pesticide products, that we are not permitted to use here for means of toxicity or for reasons of that nature. Neither should we allow importation of products on which these chemicals have been used. It is a matter of both economics and safety.

There is an omission in the agreement of any specific language covering this, and it was not addressed in the side agreements. And there is still at least 58 usages in Mexico that our workers cannot use here.

Mr. FARR. Thank you.

Mr. Eckel.

Mr. ECKEL. It is my understanding that there are provisions in the agreement to set up a commission to review those types of complaints; and the Mexicans, in this case where this allegation would be made, would have to prove that there was not a scientific basis for that regulation. And then, of course, on our side we are also concerned about that.

That is why the sanitary and phytosanitary regulations are so critical to all trading partners, whether it is NAFTA or the GATT. And the scientific basis is the key.

Now, I think that that does say something to all of our Governments and, that is, as we pursue the food safety issue, we have to set aside the emotion and concentrate on the food safety issue from the standpoint of medical and scientific fact. And I think that is one of the positives in NAFTA.

Mr. FARR. But the difficulty here is you are asking Members of Congress to say a faith walk that those procedures will, indeed, be implemented to our satisfaction after we have voted on NAFTA. And that is the concern that some of us have.

Let me get into one other question here. We have a lot of plant breeders in my district. They sell patent roses. The U.S. inspectors check with U.S. growers to see whether they are in violation of those patents. The patents cannot be bred. And the average royalties that are paid on this are about 65 cents a plant.

No. 1, as I understand in checking the Mexican growers and without country of origin labeling, how could we ever catch the patent violators?

Now I understand that there is an article, 1719, of NAFTA requires the parties to cooperate with a view to eliminate the trade in goods that is infringing on intellectual property rights, but that is not spelled out. And I wondered whether you were going to conduct a study on patent payment differentials between the United States and Mexico.

The CHAIRMAN. The time of the gentleman has expired. The witness may answer the question, and then we will proceed.

To whom did you ask the question?

Mr. FARR. Secretary Walker.

The CHAIRMAN. Secretary Walker.

Mr. WALKER. I thought that was directed to Mr. Eckel. I am sorry.

Again, I think those concerns, once the agreement, if it is adopted by Congress, these concerns and issues, were they to arise, will be handled in the Government through bilateral Government discussions and negotiations. And I can assure you that members of this committee and Members of Congress will follow closely any such development, also, that impact, in your case, the industry in California, that has patents on roses and other kinds of flowers and so on, to prevent Mexican producers from transshipping or from exporting to the United States anything that might be unfair or hinder your industry, harm your industry in some way.

The CHAIRMAN. Thank you very much.

Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

The question that I have for the panel is in a little different area. It seems to me particularly in agriculture, that historically we have a lot of problems with these treaties, whether it is the GATT agreements or whatever they may be.

We come up with problems of violations and try to first determine if there is a violation with the President, who seems to be very reluctant to be put in positions, for foreign policy reasons, to have to take action.

Then we do a lot of dancing around to try to prevent the findings, and after we get them, we find many times that Presidents just drag their feet about doing anything about the problem.

I would like for those on our panel, if they would, to comment with regard to first, how difficult is it going to be to determine, as far as agricultural segments are concerned, as to whether there are violations; second, what kind of penalties are we dealing with and whether these penalties are adequate; and, third, how much faith do they have whether it be this President or future Presidents, given our past history, that those penalties and actions will be taken, should it be found that we do have violations?

I will start off with you, Mr. Walker.

Mr. WALKER. Again, Congressman English, there has been concern over the years with regard to violations in GATT and other agreements. We have complaints from American agriculture, certain commodities, about violations of these agreements; and it is a problem historically in some cases. And with the French wine, and

some things like that we imposed the tariffs on because of some concerns with the French—what the European Community was doing with the French farmers and others as it affected American commodities.

I would just say that this process would apply to NAFTA as well. I think there are no easy answers. This agreement does not address all the concerns. It is not perfect. I am certain the process, as we implement it, if—

Mr. ENGLISH. Mr. Walker, if I could stop you right there, you are doing a lot of generalizations, slipping and sliding around on this thing.

The point that I asked you specifically, is there any reason to think that this agreement is going to be any different. What about the penalties? Are the penalties strict enough? Who is going to make a determination of whether there is a violation, and what makes you think that this President or any future President is going to take action regardless of foreign policy consequences.

This President, I might say, has indicated he is more willing to do so than any we have seen in the past. And you know, why wouldn't American farmers or people involved in agriculture say, hey, we have gotten the short end of the stick every time we have gotten into trade negotiations; we have gotten shafted on every deal; and we haven't had anybody in the Government who is willing to stand up and take a step forward if there is going to be any cost at all to agriculture.

So tell me what is going to be different about this agreement.

Mr. WALKER. Mr. English, again I think it would be the pressure applied to this administration by Congress—

Mr. ENGLISH. I don't expect that there will be one iota. Now tell me where we go?

Mr. WALKER. Well, it is the same with any of these agreements we have that are currently in force. Mr. English.

I mean it is only to the degree that the administration, Congress, is determined to respond to the issues and concerns that affect whatever industry or group that is affected. And our staying power—

Mr. ENGLISH. Dr. Roberts.

Ms. ROBERTS. Congressman English, you brought up one of the worst problems we feel with this agreement. We know safeguard mechanisms do not work now.

We know if there is any difficulty, it will take 18 months to 2 years merely to have a violation heard to appropriately document. That is one of the main things Florida agriculture asked for is more specificity. Have a price-based mechanism that really addresses an agricultural problem. Have something that is workable for a, basically, shorter term judgment as to whether or not there is a problem.

We know the chairman has worked very diligently in this area. And we commend you very much for this. But, regrettably, we still do not feel there is a workable solution. The events in the Canadian Free-Trade Agreement show us that we just do not have workable safeguard mechanisms. And the latest GAO report says that they rejected a price-based safeguard mechanism, for another major reason is that Mexico doesn't have any adequate statistics

regarding their agriculture on which to base what would be a workable safeguard mechanism.

Mr. ENGLISH. Mr. Eckel.

Mr. ECKEL. Congressman English, I think the first point is that one difference with this agreement and this administration as well as the past administration is that agriculture has been put up first. And that is a significant difference.

I can't answer your question with any more specificity trying to second guess what other Presidents or other administrations are going to do; but if we followed that line, we probably wouldn't enter into any other agreement.

I think the key is that agriculture has taken such a front row seat in this negotiation. And, second, I believe that the proposal, as far as tariffing the trade barriers and the specificity with which they will be reduced over specific years, can be measured. And I think that is another critical difference between this agreement and other agreements.

The good faith question is difficult.

Mr. ENGLISH. Mr. Swenson.

Mr. SWENSON. Thank you, Congressman. I think it is an excellent question. In fact, in regards to the political aspects, the Presidency, it comes down to a foreign aid policy, and agriculture becomes a major factor in foreign aid.

And do you start using the leverage of trade to enforce those mechanisms of the trade act which should be enforced? What are the ramifications on foreign policy? I think it is an excellent point.

But in regard to the particular aspect of the NAFTA agreement, I think when you take a look at the Canadian Free-Trade Agreement, for example, the negative economic impact was felt by producers, not the entities involved in the international trade aspect.

And when a complaint is to be filed under the proposed NAFTA agreement, that complaint, as far as the potential economic impact felt by any commodity sector within the United States, has to be paid for by the producers within that agricultural sector under the Canadian Free-Trade Agreement.

United States pork producers spent hundreds of thousands of dollars proving the inadequacies of the structure and the operation of Canadian Free-Trade Agreement. Under the NAFTA agreement, that same cost factor would occur in the investigative process. And we had a firm here in Washington that is very astute in international industry research the Durum wheat situation, and they said it would cost us, as producers, \$500,000 to walk that through the system, the International Trade Commission, the Commerce Department, and so forth. Producers cannot afford that when they have already been negatively impacted and then try to go about proving that. In such a situation those entities involved in trade sort of get their cake and eat it, too.

The CHAIRMAN. I am sorry. We must go to the next panel, unless you have a specific question to a specific member of this panel.

Mr. DOOLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Dooley and then Ms. Long.

Mr. DOOLEY. I sometimes am surprised that people, when they make their analysis of NAFTA and they cite some of the present environmental concerns, some of the present food safety concerns

and some of the present enforcement problems, how they can come to the conclusion that by passing NAFTA, we are actually going to be exacerbating those conditions.

I mean if we help contribute to the development of the Mexican economy, they are going to have more resources to deal more effectively with these problems.

Mr. Swenson, you made a statement—and I have heard you constantly here talk about how you want to renegotiate NAFTA. You have a statement in your testimony that you delivered to us. We also talked about the advantage that United States corn growers are going to have with NAFTA which you apparently acknowledge that there might be a benefit there.

You also point out that the sixth sense for our farmer comes at the expense of an estimated 3 million Mexican corn farmers who will lose their farms, jobs, and homes when their prices are going to be cut in half.

Are you advocating that we move forward with NAFTA advocating that Mexico put up higher tariffs for United States corn going in there?

Is that a philosophy that you are embracing, how is this going to benefit United States farmers?

Mr. SWENSON. Congressman, the proposed NAFTA, if implemented, does, in fact, put higher tariffs on U.S. corn initially than what exists today and the movement of corn product into Mexico.

Now what we are pointing out in our testimony is we take a look at the full implementation and the structure that will change both within the United States as well as within Mexico.

We cannot totally ignore the fact that there will be a significant impact within the structure of Mexico that has placed agricultural producers in that position. It will either be an immigration problem or a problem within the economy of Mexico.

I think it is to totally ignore that and say we are entering into this agreement—

Mr. DOOLEY. But if you follow through with this policy, if this is a policy of the National Farmers Union, what you are saying, you want to have a better trade agreement, you want to move forward with free trade, but you don't want people in either country to be hurt; and any of those countries that might have a comparative relative advantage, that should not be the country where those resources are utilized and allocated.

How can we ever move forward with expanding trade opportunities if we are going to place artificial barriers and conditions so that people who have a relative advantage cannot benefit?

Mr. SWENSON. I am not saying you put in artificial barriers. But what you do is put programs in place as you are recommitted to retraining programs here if the proposed NAFTA goes through. We would like to see the same within Mexico so that they assist those that have farming land and not had the opportunity to own it in the past become the owner, just as we have in our Farmers Home Administration.

If you look at the restructuring of the Mexican Government, they are not at all committed to that type of program. And so you have a significant displacement that moves into a problem area in other sectors. And so it is just an overall policy of which, do you help

raise the standards of people which then will provide them the economic means to buy more of our products, more value added aspects? And there is a lot to be gained in that area, and we have seen that success in many of the Asian countries through many of the assistance programs that we put in place there. Their consumption has gone up, their acquisition, and they have paid cash for it.

Half of our exports to Mexico under the current scenario is done through credits and not through actual cash purchases.

Mr. DOOLEY. Dr. Roberts, you made a statement about being concerned about the pesticides being used in Mexico and elsewhere that could come in.

My understanding of the agreement is that in California where we have even more stringent pesticides residues than I think Florida or any other part of the country, is that any produce that is coming into California has to meet the State set residue standards as long as they are applied uniformly.

Is that your understanding of the agreement?

Ms. ROBERTS. Congressman Dooley, I said that this was a matter of both economics and safety.

Yes, we have the safety provisions in; but between FDA, USDA, and even our State and your State, we can only check basically 1 to 2 percent of the imports. So to say we have an adequate system of safety, no.

On economics, it is patently unfair for growers in another country to be permitted to use products that, by judgment of either toxicity or for inadequate scientific information, we either don't have registered or we are not permitted for our growers to use.

Mr. DOOLEY. If I can take this one more step forward, then, if we can follow this line of thinking, are you then saying that the Mexican Government should be able to prevent the importation of produce into their country because we are utilizing pesticides here in the United States—my farmers are using pesticides upon which this material had been registered but that that material—that product cannot be shipped in even though we can base, on sound science, that it is safe, simply because the Mexican Government has not allowed for the use of that product to the registration?

Are we not opening up a Pandora's box that can come back to haunt all U.S. producers if we state that we are only going to allow the importation of products that have materials that are only registered for use in the United States?

Ms. ROBERTS. What we are saying is, if you really want free trade in the hemisphere, you will proceed toward an equalization of pesticide, phytosanitary, and sanitary requirements or you do not have free trade and it is inappropriate to use that term.

Mr. DOOLEY. Thank you.

The CHAIRMAN. Ms. Long.

Ms. LONG. Thank you, Mr. Chairman. And I came in late, so I didn't hear much of the testimony.

But, Mr. Huber, I think in your testimony you indicated that there could be an increase in, I believe, butter fat and powdered milk. And I just would like you to elaborate on that.

Mr. HUBER. Well certainly we tried to state in our written testimony that there would be, indeed, a serious loophole under the proposed NAFTA agreement that would, in effect, over time, allow

substantial amounts of product that cannot—that are leveled under certain classes, particularly confectioneries and stuff like that, that has substantial amounts of dairy products in them; and those then could come in through Mexico as a staging area from other parts of the world.

And we are very concerned about that from our point of view.

Ms. LONG. Thank you.

The CHAIRMAN. I thank the panel. We appreciate your being here, and your contribution is very much appreciated.

The next panel will be Jerry Calvani, National Cotton Council; Dr. Keith, National Grain and Feed; and Mark Armentrout.

And I understand that the testimony of Ms. Maureen Smith will be submitted for the record.

Mr. Calvani.

#### **STATEMENT OF JERRY CALVANI, CHAIRMAN, BOARD OF DIRECTORS, NATIONAL COTTON COUNCIL OF AMERICA**

Mr. CALVANI. Thank you, Mr. Chairman. We commend you for scheduling this timely hearing and sincerely appreciate the opportunity to appear before you today to discuss the cotton industry's analysis of the North American Free-Trade Agreement. You may recall an earlier testimony we expressed significant reservations about the impact of NAFTA on our industry.

The membership of the National Cotton Council of America has been in deep thought the last several months over what to do about NAFTA. The council was an active participant throughout the negotiating process, and it has evaluated the final results in an effort to develop an industrywide position on the agreement.

I have enclosed in my written testimony a copy of a resolution recently adopted by our board of directors putting the National Cotton Council on record as supporting the implementation of NAFTA.

The cotton industry has been involved in the NAFTA negotiations on two fronts: Agriculture and textiles. The final agreement does not contain all of the provisions we supported. The cotton industry has consistently expressed concern about NAFTA's rule of origin for textiles. Our members uniformly agree that the cotton industry would be better served if NAFTA included a fiber-forward rule of origin instead of the yarn-forward rule that was adopted.

Further, the council voiced its opposition to the tariffication of section 22 import quotas with Mexico. And despite our opposition, these quotas will be converted into tariff rate quotas in the final agreement. We are, however, supportive of the 16 cent initial tariff level which would be applied.

But as our industry evaluated this agreement, we tried to measure it not by what negotiating positions we had won or lost but by whether or not NAFTA will be good for U.S. cotton.

When our membership viewed NAFTA as a whole, it determined that the agreement, on balance, met the requirements of the National Cotton Council's resolutions on the subject, namely, that the agreement gives the U.S. cotton industry the best opportunity for supplying apparel and other end-use manufacturing industries with U.S.-produced cotton and its products.



Mr. Chairman, the U.S. cotton industry is supportive of NAFTA for the following reasons. One, we think cotton demand will grow, and the recent decline in Mexican cotton production and huge increases in our cotton exports to Mexico indicate that the United States will be the primary supplier of cotton to Mexico to meet that demand.

Two, the majority of the U.S. textile sector is convinced that NAFTA will be good for their business and could be the only way to offset serious losses they expect if the GATT negotiations governing textiles are concluded in their current form.

Three, although we are concerned about the decline of apparel manufacturing in the United States, we believe NAFTA will discourage the movement of those industries to Asia. Under NAFTA, it is more likely those industries that are going to leave the United States will move to Mexico, where they will be a likely buyer of our product.

Four, we believe U.S. cotton, cottonseed oil, yarn, and textile producers can compete and win with those industries in Mexico, provided there is continued support in Congress and the administration for an effective cotton program.

The final agreement has met with opposition from some cotton producers who are concerned about its potential risk and its effect on small businesses and their communities.

In supporting this agreement, the council acknowledges these risks and these producers' concerns. However, we are supportive of efforts by the administration and this committee to reduce any negative effects of NAFTA on U.S. jobs.

Turning to the implementing legislation, NAFTA calls for the current cotton quota with Mexico of 18,000 bales to be replaced with a tariff rate quota under which about 46,000 bales will be allowed entry into the U.S. duty free during the first year of the agreement.

Any imports of raw cotton above that amount would face a tariff of 26 percent ad valorem or around 16.5 cents per pound. The 46,000 bale tariff rate quota would be increased at a rate of 3 percent per year, and the tariff would be phased out over 10 years. So by the 10th year of this agreement, there will no longer be any quota or tariff in place to restrict raw cotton trade between the United States and Mexico.

Mr. Chairman, in our opinion, the agricultural portion of the implementing legislation should affect U.S. cotton only to the extent necessary to implement these changes to the section 22 import quota. No other revisions to laws affecting cotton are necessary or appropriate.

We have concerns about the possibility of other countries acceding to this agreement without a thorough and thoughtful negotiating process. In particular, we have concerns about CBI parity legislation being added to this bill. We discussed these concerns with the Office of the U.S. Trade Representative, and have assured us that no countries would be added to NAFTA without separate negotiations in which we would be allowed to participate.

The council has also discussed the issue of the possible cost of NAFTA legislation with the Trade Representative's office. They have relayed to us that they do not intend for NAFTA legislation

to contain unrelated provisions designed to cut agricultural program costs. They do believe there will be budget savings in agriculture as a result of NAFTA's implementation, and we agree. But we are opposed to additional cuts in agricultural program made just to reduce expenditures.

Mr. Chairman, we cannot predict the future with certainty. We continue to have some concerns about enforcement of the rules of origin contained in NAFTA and the risk associated with the agreement. We are looking forward to working with you to address those concerns and to monitor the progress of our trade with Mexico under NAFTA.

Thank you very much.

[The prepared statement of Mr. Calvani appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Dr. Keith, I understand you are accompanied by Mr. Kemp.

**STATEMENT OF KENDELL W. KEITH, PRESIDENT, NATIONAL GRAIN AND FEED ASSOCIATION, ACCOMPANIED BY TODD KEMP, DIRECTOR, LEGISLATIVE AFFAIRS**

Mr. KEITH. Good morning, Mr. Chairman.

The National Grain and Feed Association does appreciate this opportunity to testify on the effects of the North American Free-Trade Agreement.

Accompanying me today he is Todd Kemp, our director of legislative affairs. He just returned from a trip to Mexico during which he met with Mexican President Carlos Salinas de Gortari and a number of cabinet-level officials and others. So it may be of interest to the committee to hear some first-hand observations after we are through.

Mr. Chairman, NAFTA is good for U.S. agriculture. It will increase U.S. exports of raw commodity and processed goods. NAFTA benefits to the grains and oil seed sector are very clear.

Specifically, for corn, immediate duty-free access of 2.5 metric tons will be allowed. And by the end of the 15-year transition period, U.S. corn exports to Mexico are expected to reach about 6 million metric tons, as much as 60 percent above levels expected in the absence of NAFTA.

All told, increased U.S. coarse grain exports are projected to raise yearly revenues to the U.S. coarse grain sector by \$400 million to \$500 million.

United States wheat exports to Mexico should also rise to 1.5 million metric tons, roughly 20 percent above expectations without NAFTA.

And elimination of tariffs on soybean and other soybean products over a 10-year period is expected to raise soybean exports about 20 percent above non-NAFTA projections.

Mr. Chairman, it is clear why the United States needs NAFTA. Our ability to produce agricultural products far exceeds our ability to consume as a nation.

The export business generated by NAFTA will bolster the 2 million farmers in the United States as well as 19 million jobs supported by off-farm agribusiness.

It is also good for rural areas. Agribusiness is often the largest employer in small towns and communities. The grain elevator, the flour mill, the poultry or livestock plant are all important employers providing benefits and jobs. Agricultural production and related agribusinesses also generate the level of economic activity in rural communities to sustain rural rail service, high schools, hospitals, grocery stores, and so forth.

Capitalizing on opportunities like NAFTA to increase exports and bolster farm income is especially important in today's climate of shrinking Federal support for U.S. agriculture.

We must, we believe, begin to adopt policies that permit U.S. agriculture to replace this lost Government support through the marketplace, and NAFTA will help us do that.

In closing, Mr. Chairman, we cannot afford to be shortsighted on the significance of approving this NAFTA agreement.

Rejection of the agreement, according to Mexican officials, would be seen as a slap in the face to Mexico.

A number of prominent anti-NAFTA spokespersons have suggested this they are for NAFTA, just not "this NAFTA." The assumption, of course, is that a better agreement for the United States could be negotiated if NAFTA fails.

Mr. Chairman, there is strong evidence that a new NAFTA could not be negotiated any time soon. In fact, when asked recently how soon Mexico might renegotiate an agreement with the United States, one Government official responded that when his 4-year-old son reached the age of 50, then Mexico might consider sitting down at the table again with the United States.

If this NAFTA is rejected, U.S. farmers, processors, manufacturers, and exporters will suffer and the jobs that they sustain will also suffer. Far from costing jobs if NAFTA is approved, agriculture will likely lose a significant number of export-related jobs if NAFTA is defeated.

To summarize, Mr. Chairman, NAFTA truly will be good for broad-based U.S. agriculture and the 21 million jobs it provides. We urge a positive vote when it comes to the House floor.

[The prepared statement of Mr. Keith appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Armentrout.

**STATEMENT OF MARK ARMENTROUT, VICE CHAIRMAN, FOREIGN TRADE COMMITTEE, NATIONAL CATTLEMEN'S ASSOCIATION, ALSO ON BEHALF OF THE MEAT INDUSTRY TRADE POLICY COUNCIL; AMERICAN MEAT INSTITUTE; NATIONAL PORK PRODUCERS COUNCIL; AMERICAN FARM BUREAU FEDERATION; AND U.S. MEAT EXPORT FEDERATION**

Mr. ARMENTROUT. Thank you, Mr. Chairman.

My name is Mark Armentrout. I am a cattleman from Roswell, Georgia, and vice chairman of the National Cattlemen's Association's Foreign Trade Committee.

NCA represents more than 230,000 cattle producers nationwide. Today I am presenting testimony on behalf of the Meat Industry Trade Policy Council; including the National Cattlemen's Association, the American Meat Institute; the National Pork Producers

Council; the American Farm Bureau Federation; and the United States Meat Export Federation.

Mr. Chairman, the MITPC strongly supports NAFTA 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, and the pork industry exceeds 2.5 percent. It is in this spirit of new markets for meat that harbors the strong support for NAFTA by the Meat Industry Trade Policy Council.

Mexico is a growing economy of 90 million consumers who like to eat meat. It is a natural market for the United States. Mexico currently has a high demand for inexpensive variety meats, meats 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, more beef, and more pork. The United States already dominates the market for high-quality grain-fed beef and pork. In addition, increased business activity in Mexico will mean an increase in the hotel and restaurant trade. Mexico is already our second largest export market for pork and our third largest export market for beef.

Let me deviate just a moment from the written testimony to personalize the impact of NAFTA on my operation. I am the owner of the Mile Park Feed Lot in Oakland, Iowa. I custom feed cattle for producers throughout the Southeast and on into the upper northern plains part of the country.

What we are trying to do is to add value to those cattle and to the corn that those producers have to sell. My customers range from the peanut producer in Georgia, who also raises cattle, to the wheat farmer in North Dakota, who also raises cattle.

Exports currently provide about \$80 a head to the value of those cattle. Because I am in a margin business, that \$80 basically goes back to the producer across the country wherever he is, because he is utilizing forage that is not available for any other economic activity. He is able to compete.

This agreement will open new markets to him and allow him to participate and return more dollars back to his operation. A good trade agreement is a win-win situation for all the opportunities involved.

We in the meat industry are excited about the opportunities presented by NAFTA. 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 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.

It also tells the Mexicans that we feel they are not worthy competitors of ours.

Thank you for this opportunity to testify on this important free trade measure.

[The prepared statement of Mr. Armentrout appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

I would invite you to stay if you can. I am going to call the other panel so that we might proceed.

On the next panel we have Mr. Terry Fredrickson, Mr. Douglas Sims, Mr. Richard Gady, Mr. Michael Hancock, and Mr. Marvin Brady.

Do we have Mr. Fredrickson?

Mr. FREDRICKSON. Yes Mr. Chairman.

The CHAIRMAN. You may proceed.

#### **STATEMENT OF C.T. FREDRICKSON, CHAIRMAN, BOARD OF DIRECTORS, NATIONAL COUNCIL OF FARMER COOPERATIVES**

Mr. FREDRICKSON. Thank you. My name is Terry Fredrickson, and I serve as chairman of the board of the National Council of Farmer Cooperatives, on whose behalf I appear today.

I am also chief executive officer of AgriBank, headquartered in St. Paul, Minnesota, one of the banks of the cooperative credit system.

Mr. Chairman, with your permission, I would like to submit our written statement for the record and use this opportunity to briefly summarize our views with regard to the North American Free-Trade Agreement and its implications for U.S. agriculture in rural America.

The CHAIRMAN. Thank you. You may do so.

All your statements will appear in the record; and for the sake of brevity, if you could summarize, it would be appreciated.

Mr. Fredrickson.

Mr. FREDRICKSON. Thank you, Mr. Chairman.

First we believe that NAFTA, on balance, provides both United States agriculture and rural America an opportunity to share in the continued growth of trade with Mexico. It is vitally important to our industry.

The second point we would make is that, while a strong case can be made for NAFTA, it is important to recognize that not all sectors of agriculture may share in gaining greater access to Mexican markets. This is especially true for a number of import sensitive commodities which may face increased competition and a difficult period of transition to a more open marketplace under NAFTA.

This would include, for example, a number of selected fruits and vegetables as well as other specialty crops such as peanuts and sugar.

We believe the question posed by NAFTA for agriculture is: How do we take advantage of the opportunities it provides while helping to minimize the potential economic disruptions it may also visit on certain sectors of agriculture and related rural communities?

This brings us to our third and our final point. In order to realize the full benefits of NAFTA and to provide for a smoother transition period for import-sensitive commodities, we believe a number of actions need to be taken as a part of a new agricultural investment and market expansion program, AIM.

Such a program would have three essential elements: First, encourage needed investment; second, enhance market opportunities; and third, provide transition assistance where necessary.

The NAFTA debate brings us face to face with one of the most pressing needs facing agriculture and rural America, that of attracting necessary capital and investment to maintain its efficiency and its competitiveness. Without this, our industry cannot begin to make the adjustments necessary during this period of transition in order to remain economically viable and competitive.

However, with the limited resources available to the Federal Government because of continued budget pressures, the focus of public policy must increasingly shift to equipping the rural private sector to take advantage of this economic opportunity.

We believe that includes full utilization of the Farm Credit System which was established for just this purpose. As outlined in our written testimony, NCFC supports allowing farm credit institutions, either by themselves or in combination with nonsystem entities, to invest in separate equity investment subsidiaries called Rural Competitiveness Organizations.

Such RCO's would help attract capital and investment necessary for modernizing plants and facilities, meeting environmental and other regulatory requirements, including water and wastewater facilities, as well as helping to meet the needs of beginning farmers.

To enhance market opportunities under NAFTA, such a program should also provide additional authority for the banks or cooperatives to help farmers through their cooperatives gain greater access to the Mexican market, including through joint ventures and other strategic alliances with allied businesses.

Other market enhancing provisions which should be included as part of this overall program includes strengthening the abilities of the banks or cooperatives to help finance increased agricultural exports to Mexico as well as other countries.

Finally, Mr. Chairman, to provide for a smoother transition period under NAFTA for producers of import-sensitive commodities, we believe a number of actions could and should be included under an overall program.

These would include, first of all, requiring the Secretary of Agriculture to fully utilize all the export food assistance and surplus commodity disposal programs of the Department and the Commodity Credit Corporation to help offset or counter any negative impacts related to NAFTA.

In the case of import surges of a particular commodity, for example, the Secretary would be directed to use any one or a combination of programs to provide other market outlets for domestic producers.

Second, give priority in purchasing agricultural goods for the operation of Department of Agriculture surplus removal and feeding programs to commodities negatively impacted by NAFTA programs.

Third, authorize transitional assistance payments to the extent funds are available to further offset the negative impact of any NAFTA-related import surges.

And, finally, to require the Secretary to monitor and report to the Congress on the implementation of NAFTA, its impact on various sectors of agriculture, and what actions have been taken to counter

those negative impacts; in other words, make the Secretary of Agriculture, agriculture's advocate under the agreement.

Mr. Chairman, we believe that with this overall package, U.S. agriculture and rural America will be better positioned to realize the full benefits of NAFTA as well as to adjust to changing market conditions.

We thank you for the opportunity of presenting our views.

[The prepared statement of Mr. Fredrickson appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir.

Next, Mr. Sims.

#### **STATEMENT OF DOUGLAS D. SIMS, PRESIDENT AND CHIEF OPERATING OFFICER, COBANK—NATIONAL BANK FOR CO-OPERATIVES**

Mr. SIMS. Mr. Chairman and members of the committee, my name is Doug Sims. I am president and chief operating officer of CoBank the National Bank for Cooperatives.

CoBank is part of the Farm Credit System. The bank provides financial services to farmer-owned cooperatives; rural utility systems—including electric, telecommunication, water, and waste disposal systems—and in addition, we facilitate the export of agricultural commodities through our international financing of agricultural commodities for agricultural cooperatives. We have assisted agricultural cooperatives in financing exports to Mexico since 1982.

I will begin my comments by stating that CoBank supports NAFTA. However, we recognize that steps should be taken to minimize and mitigate, if necessary, the affects NAFTA may have on certain industries including agriculture.

Certainly the actions that need to be taken, in our view—and the reason for us being here today—is to help farmer-owned cooperatives and rural businesses adapt to the emerging global marketplace.

I would now like to outline specific proposals—with both a domestic and international orientation—that will ensure the availability of financial services needed by important segments of agriculture and the rural economy to compete effectively in a more global environment.

In terms of international financing, Congress should eliminate the barriers that exist for farmer-owned cooperatives in obtaining financing for domestic and international business activities in which they have an ownership interest.

We propose that the banks for cooperatives be authorized to provide financing of joint ventures, partnerships, and similar arrangements where cooperatives have an ownership interest.

Recently our bank has been approached by U.S. cooperative customers with promising plans to expand their markets in Mexico.

For example, one of these customers is a fruit processing cooperative that has an opportunity to ship concentrated apple juice to Mexico. A large Mexican food distributor has proposed to form a joint venture with the cooperative to reconstitute the juice product and package it into retail sized units.

I provided the committee in the written testimony several other similar examples.

In addition, to facilitate the sale of additional agricultural exports, we propose that Congress authorize CoBank to finance the sale of any agricultural product originating in the United States.

In most cases, current law limits CoBank to financing only those exports that originate from agricultural cooperatives.

Our proposal would make U.S.-based financing more readily available to a broader segment of U.S. agriculture. With the exception of CoBank, most agricultural export financing is provided by foreign banks with little or no long-term commitment to U.S. agriculture.

Based on our past experience, we can demonstrate that the availability of the bank's financing has resulted in sales of U.S. agricultural products that would not otherwise have taken place.

It is important to note that CoBank has an obligation to protect the interests of the farmer-owned cooperatives involved in export markets and who capitalize the bank. For that reason, we support a clear statutory mandate that the bank must continue to give priority treatment to the farmer-owned cooperatives.

In terms of cooperative-related businesses, we propose that the bank also, for cooperatives, be authorized to finance certain agriculturally related business activities that provide a direct and material benefit to farmer-owned cooperatives.

This authority would be particularly beneficial to farmer-owned cooperatives that must rely on other entities to process, market, or, in other ways, add value to their products.

In 1980, farmers received 37 cents of each dollar of food spent at the grocery store. That return for farmers has been declining every year since 1980 and today is about 25 cents for each consumer dollar spent. More than at any time in our history, farmer-owned cooperatives appreciate the importance of capturing the profits to be realized by adding value to their own products and marketing these value-added products in the United States and in other countries.

It is our belief that the proposals we have outlined will help farmer cooperatives be stronger competitors in a global marketplace.

As the members of this committee know, cooperatives are often the largest and most significant businesses operating in rural communities today, any steps we can take to assure their future success will benefit all of rural America.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear here today. I would be pleased to respond to any questions.

[The prepared statement of Mr. Sims appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much.

Next, Mr. Gady.

**STATEMENT OF RICHARD L. GADY, VICE PRESIDENT, PUBLIC AFFAIRS, AND CHIEF ECONOMIST, CONAGRA, INC.**

Mr. GADY. Thank you, Mr. Chairman and members of the committee. My name is Dick Gady, vice president of public affairs.

I am chief economist of ConAgra. I thank you and the committee for the opportunity to testify on NAFTA. I am here to express



strong support for NAFTA. I will try to just hit the key points of the written testimony.

We are an agribusiness company with about \$22 billion in annual sales. We operate across the food chain and derive about 10 percent of our revenues from agricultural exports. Exports to Mexico account for about \$260 million of our revenues. This volume growth has been over 80 percent in the last 2 years.

This growth has largely been made possible by unilateral liberalization of trade and economic growth in Mexico; it has contributed to the returns of American farmers and has created jobs for American workers.

We believe NAFTA would result in even more export growth to Mexico for at least three reasons: One, tariff and nontariff barriers will be reduced; two, economic growth in Mexico will be higher with NAFTA than without NAFTA; and three, it will be easier to export in Mexico and do business there from an administrative and a risk standpoint.

As you know, Mr. Chairman, overall U.S. agricultural exports have stagnated the past few years. We have suffered from the loss of the former Soviet Union and Eastern Europe as major markets for United States products. Consequently, we can't afford to slam the door for ourselves on growing markets like Mexico and leave the door open for other competitors to enter those markets.

Latin America represents a growing market of 400 million people, and NAFTA is just a first step in gaining more access to that market.

Our own exports cover a wide range of agricultural products. They include, for example, high-tech frozen dinners, chicken and pies from our frozen foods companies; popcorn and french fries from Golden Valley; frozen potato products from Lamb-Weston; hams, tenderloins, ribeyes, chucks, strips, rounds, et cetera, from our red meats companies; edible beans from Klein-Berger; an array of 35 branded, packaged meat products from Armour Swift-Eckrich; Butterball poultry products; and grain and grain byproducts from Peavey and our grain processing companies.

These exports alone account for approximately 5,000 jobs in the U.S. economy. Therefore, we are exporting products, not jobs, to Mexico.

We are convinced that NAFTA would enhance our export opportunities there and that our \$260 million in exports to Mexico today would more than double in 5 years, creating another 5,000 jobs and contributing to the strength of our agricultural economy.

The defeat of NAFTA, on the other hand, would slow down exports, would result in eventual job losses, and have a negative impact on agriculture.

Let me just give you a couple of examples. We currently export several million pounds of frozen potato products to Mexico to help supply about a 35 to 40 million pound market.

This is despite a 20 percent import duty at the boarder for potato products going in. Our french fry people tell us that market is going to be 500 million pounds in 10 years. If we maintain that current 20 percent import duty, there is going to be a strong incentive to locate processing facilities in Mexico and try to develop local production in Mexico to avoid the import tariff.

If NAFTA passes, and the tariff is phased out over time, then there is more of an incentive to keep those plants in the United States rather than locate them in Mexico.

I think meat is another example. We currently export over 130 million dollars' worth of meat and packaged meat products to Mexico. This is despite a 20 percent duty on many of meat products. We look for meat demand there to grow rapidly as incomes improve in Mexico, if NAFTA is passed.

However, the same potential adverse impact on U.S. jobs mentioned above on potatoes would apply to meat products. Without the 20 percent tariff on many types of meat products, our export of the meat will continue to grow and those jobs and new jobs will be located in the United States.

I think the Japanese market might be a good example of what has happened without NAFTA. The average Mexican, for example, spends about \$380 per capita on United States products, more than the average European, about as much as the average Japanese who earns about 10 times as much.

We have a surplus balance of trade with Mexico; we have a huge balance of trade deficit with Japan. Without a trade agreement, Japan has maintained substantial barriers to access and has kept United States products out. NAFTA does the opposite. It reduces and eventually eliminates barriers. Given a level playing field, the huge productivity advantage that U.S. farmers and agribusiness have will win for us internationally.

The United States needs to pursue those kinds of trade policies that allow this productivity advantage to work to our benefit. NAFTA is such a policy.

Mr. Chairman, our interests are simple: We want to export more products to Mexico, be able to expand our United States plants; we would like to see tariffs reduced and United States access to markets improved around the world. NAFTA will help accomplish that. I strongly encourage that Congress support it.

Thank you very much.

[The prepared statement of Mr. Gady appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir.

Next, Mr. Hancock.

#### STATEMENT OF D. MICHAEL HANCOCK, EXECUTIVE DIRECTOR, FARMWORKER JUSTICE FUND, INC.

Mr. HANCOCK. Mr. Chairman, members of the committee, thank you for the opportunity to appear today before the Agriculture Committee and testify about an aspect of NAFTA that I think you haven't heard much about; and that is the impact on U.S. farmworkers.

NAFTA is critically important for farmworkers, and your consideration of issues I raise today is greatly appreciated.

My name is Mike Hancock. I am executive director of the Farmworker Justice Fund. We have followed very closely the debate over NAFTA and would like to share our concerns about the impact of the agreement on U.S. farmworkers.

Over 4 million people in the United States are dependent on seasonal agricultural labor for their livelihood. Contrary to some opin-

ion, the vast majority of these people are citizens and legal residents of the United States and have devoted most of their working lives to putting food on our tables. By any measure, they are a uniquely vulnerable workforce. U.S. farmworkers are among the poorest of the working poor. More than 60 percent are illiterate, and most do not speak English.

Under NAFTA, they will be severely impacted by the changes in the U.S. agricultural economies, and the measures proposed by the administration to soften this blow inadequately addresses these vulnerabilities. One would be hard pressed to name another group of workers who will be asked to pay a higher price for NAFTA.

There is a real threat to many sectors of the U.S. agricultural economy from NAFTA—particularly but not exclusively to winter vegetables in Florida, citrus, sugar, horticultural products, and other crops that are in direct competition with Mexican growing seasons. For each box of citrus that shifts to Mexico, a United States worker will see his wages reduced accordingly.

I have seen no study that contends that we will see a net gain in labor-intensive agriculture as a result of NAFTA and many that find a net loss. This is particularly true but not exclusively so in Florida and interestingly in the Rio Grande Valley of Texas where many workers migrate every year to Florida to seek employment.

The loss of production will be compounded by the unintended consequences of NAFTA and other changes in Mexico.

Currently, there is a huge surplus of agricultural labor in the United States. Fully one-third of U.S. farmworkers are unemployed during the time of peak labor demand. This surplus will only get worse under NAFTA.

One group that is likely to be particularly hit in Mexico are the peasant farmers who are unable to compete with Midwest corn producers. This is exactly the group which feeds the current migration to the United States for agricultural labor.

An additional factor which will add to the impetus for further migration is the planned breakup for the ejido system in which peasant farmers and farmlands are held in common.

A third factor leading to increased migration is a consequence of the accelerated shift within Mexico to an export agriculture based on fruit and vegetable production.

The current center of the Mexican winter vegetables industry is a waystation for migrant workers not just for southern Mexico but also from El Salvador and Guatemala. Workers pulled into this migrant stream are likely to continue on the additional few hundred miles more to better jobs in the U.S. agricultural economy. The expanding Mexican export oriented agricultural industry will leave inexorably to more, not less, migration to the United States.

The most well known protections under NAFTA are the much touted job retraining and other adjustment assistance for displaced workers. Various proposals have been developed, and the big question is: Who and what pays for these programs; and who controls its benefits?

However, the necessary scope and funding for the retraining program is woefully inadequate even for a small portion of displaced farmworkers. Because most farmworkers live in poverty and relocate often, they will not be able to participate in training programs

unless they are provided with living expenses during the training period. Before they can learn new job skills, farmworkers need literacy programs first in their native language and then English.

A conservative estimate based on the loss of 50,000 jobs in Florida alone and a cost of \$5,000 per trainee suggests that NAFTA's price tag for retraining farmworkers in Florida alone would be \$250 million. The cost nationwide would be several times this amount.

I have seen no one suggest that those sorts of funds are going to be available generally for retaining and certainly not for agricultural workers.

There are other concerns that we raise in our testimony, and I would ask that my written statement be made part of the record. And I would be available for questions.

Thank you.

[The prepared statement of Mr. Hancock appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, sir. Your full statement will appear in the record.

Next, Mr. Brady.

#### **STATEMENT OF MARVIN D. BRADY, PRESIDENT, SOUTHWEST VIRGINIA VEGETABLE GROWER'S ASSOCIATION**

Mr. BRADY. Thank you for giving me a great opportunity, Mr. Chairman. I am just a small-town boy from south Virginia.

Now, a lot of these things really concern me, and I would like to take a few minutes to address the committee as to what we, the producers, see as the advantage and potential problems involved in the North American Free-Trade Agreement.

While we feel that the idea of free trade is good, we also feel that just these side agreements are very out of date right now. They need to be renegotiated. All growers must first be playing on the same field.

Adverse wages—I would like to know how many on this committee know what it is I am talking about when I say "adverse wages." That is the wages our National Government here in the United States puts upon us with a side benefits like housing, utilities. It runs us over \$60 a day.

And the chemical regulations, labor laws, and subsidies must be at the same level in all countries and for all growers just to be working under NAFTA.

Now, in the Wall Street Journal there is a fine example of how subsidies are abused and misused in this country. According to this article, in 1989, the Boswell family had 23,238 acres that were sold to something called the Westhaven Trust. According to the article, this trust has a total of 326 beneficiaries. All the beneficiaries were employees of the J.G. Boswell family. Forbes magazine has estimated the net worth at \$500 million.

According to this article, this trust received \$8,392,320 in Government subsidies in 1 year due to the business set up. It is impossible for small producers to compete with such large businesses when they are finding such loopholes and receiving small fortunes from the U.S. Treasury.

How can this work with the North American Free-Trade Agreement? The above example is probably one of thousands of such similar incidents.

I would like to talk a little bit about something that the cotton gentleman a while ago was stating. He was for this agreement. But I was just wondering if these cotton people are ready to give in on being subsidized to a tune of \$8 to \$9 million a year and then they can pick up—and they grow other crops. They can pick up and go to Mexico with this free land.

I could have purchased 8,000 acres last year in Carroll County, Virginia, for what that one man did. He can go down to Mexico and buy up half of Mexico and hire them at 40 cents an hour. And up here, the Government forces me to pay \$5.75. And then the benefits equal \$7.60 an hour. That same person in Mexico will receive \$4.

A bushel of beans in Mexico, if it was being produced down there, it was 40 cents an hour, with all labor, would cost \$3.20. That same bean, with the labor forced upon me in the United States, will cost me \$10. They can ship that bean for \$2 and make a total profit of \$5.20. My picking alone is \$7.

The bean market is gone. The tomato market is gone. Now, the cabbage, last year I had 100,000 bags—or 200,000 bushels, brought me \$150,000. That same cabbage sold in the local store for \$1,500,000. There I was with \$150,000. I was short \$80,000 getting my money back.

What is NAFTA going to do for me? NAFTA is going to put that cabbage with that man moving to Mexico with all this highly subsidized—and the banks, he wants the money guaranteed, and he wants the banks to guarantee a loan.

Now, they want it both ways. They want to lend money at the high interest rate, and they want to be guaranteed for the taxpayers' money. I am not guaranteed of nothing. I have to go out there in the free market.

Let's take tobacco. One of the great leaders of this economy right now here in Washington is Jesse Helms, one of the defenders of the free enterprise systems. He has tobacco closed to me. My neighbor right across the fence is grossing \$300,000 and \$400,000 a year raising tobacco. He is also raising cabbage, beans, tomatoes.

We don't have a fair trade law in this country. How can you have NAFTA going down there with all the millions of dollars, guaranteeing the bank is subsidized?

We are going to have to kick out all subsidies if we ever have NAFTA. And I will believe in NAFTA when the Mexican friends of mine are coming and working for me. One man said we got to go to productivity. How can we go to any more productivity? I don't care what you raise, you cannot produce enough to balance out from 40 cents to \$7 an hour. It just don't work.

Now, also other agricultural products, and in order to create a fair playing field, this must be stopped. Now, I have a resolution.

I am a member of the executive committee of the Democratic Party in Carroll County, which don't mean very much, but it is to tell you where I am. We passed a resolution to eliminate all subsidies and sent it to President Clinton, Congressman Boucher, and

Senator Robb. Never got a letter back. And so how can you be heard when we want all this stopped?

It is costing our Government much too much—\$71 billion appropriated this past year in agriculture and \$38 billion for food stamps and other stuff. USDA has 1,100 field offices throughout 94 percent of the counties in America. Only 13 of those counties are pertaining to agriculture.

Now, the waste in Government—the subsidies in Government—NAFTA will never work until we are all in the same place. The gentleman right here said productivity. Let him come to Carroll County. I will show him what productivity is. He don't even know how to farm. Productivity.

How we can meet the Mexican laborer? They are suffering. They are living in buses down there. And when that bean is grown in Mexico, it will be shipped up here and set in our markets at \$3, \$2.80, where the American growers cannot produce it at less than \$10 to put it on that market.

Now, that is just a dumping ground, and it is just going to mess up our farming. We have 30,000 farmers going out per year now. Now one wheat farmer in South Dakota, the lady, was crying how she lost her family farm, when we are paying one man almost \$9 million a year. The Forbes magazine got it in the Fortune 500.

We are going to have to straighten up. Congress has a duty to see to it that the America people are fed. Now, I don't know how many farmers in Carroll County are gone this year alone. Trees, fruit trees are pushed down. They can't get no one out there to get the apples and peaches. Some of them are just breaking even—cabbage growers. I am part Indian, and we have been farming since they came to this country. This is the first time that they are going to have to give it up. I lost \$68,000 last year. I am not even going to get my money back this time. Out of 800-some acres of ground that I put together—this has to come to a stop.

In order to have all fair trade, all countries' laws are going to have to be relatively similar. At least 50 percent of our production cost is labor, as our crops are very labor intense. The same product raised in Mexico can be raised for one-third of the cost. Large agribusinesses in this country will use this to their advantage and go south for production.

Now, what is NAFTA all about? NAFTA is nothing in the world but just moving jobs south. Why can't they produce here in America if we want to ship it to Mexico and raise it here? Let our people work. Mexico currently has such cheap labor that it is very similar to slave labor.

Another big problem in NAFTA is the environmental regulations placed on farmers in this country. In other countries in North America, chemical and environmental regulations are much less stringent, thus another advantage is given to producers wishing to export their product from their countries into the United States.

If all growers are treated as equals, the large companies of the United States will control the food supply of America as the small grower will be cut out over time.

I would like to elaborate on that just one little bit right there. Now, we have to sell our product to a broker, you can't sell nothing to a chain store, to the food industry we must sell—take the price

that the wholesaler gives us, and we are cut out from the market. They tell us they will not buy from us.

Right now, we have to take about \$1 less on a container than what is taken to produce it. No farmer can do that.

Now, when NAFTA and that cheaper price goes in here, these companies will just thrash us over the head and say, if you can't produce this bean for \$2.80, we will go to Mexico.

Now, in order for NAFTA to be fair and just, many changes will have to be to U.S. agricultural policies. All farmers must be on even ground—no subsidies, equal wages, similar environmental and housing regulations—if NAFTA is to be functional.

Another item that needs to be worked on in the United States is in order to assist all farms and make NAFTA successful is to develop a new and better crop marketing system.

Now, I am going to hold right there. What I am saying is this: We are using up all of our natural resources. We have a 30 percent glut of commodities right here in the United States. I have taken one-third of my tomatoes and dumped them, because we had Mexican tomatoes coming in. They were cheaper than what I could grow them for at right then, and that one time they were a little better than mine. We had too much rain and had a fungus problem. If it weren't for the Mexican tomatoes, we could have sold them, but it went to the garbage disposal.

Now, we are using it up, and our land erosion, pollution of our air of trying to produce. These farmers are borrowing money from the Farmers Home Administration. They will borrow \$200,000 or \$300,000. When that agency knows the conditions that they are farming under, there is no way they will ever pay that back. Over 30,000 farmers—this was called in from the Farmers Home Administration—they are crying, losing the family farm.

Now, are we going to permit all this produce with this subsidized money to dump this produce and commodities back on our market and then we will just be at a disadvantage? There is no way for this to work.

Cabbage right now is bringing 36 cents in my community. And I am getting 6 cents. I am not even getting 10 cents out of the dollar. Now, we are asking to set a minimum price.

If you can set it on cotton, if you can get it on tobacco, milk—the gentleman there a while ago, for milk said it; but is he willing to cut out that \$10, \$11, \$12 they are getting subsidized and get in the free market? No, he doesn't say.

The gentleman in cotton said, we won't hold all laws, I believe he said. Well, he will grow his cotton and get more subsidies. If he has more cotton, he will just throw it away and get it from the Government. He got tobacco. He got crop insurance. I can't get it. I lost one-third of my crop, about one-fourth to hail. It beat it all to pieces. Can't even get it. But Mr. Boucher is going to try to set it up.

Their tobacco is killing 400,000 people a year and all kinds of health problems. He don't even irrigate his farm because he knows his subsidies could never fool with it. And we can't get that.

Now, that is going to have to be evened up. There needs to be a system in place to the middleman so that the farmer can receive

some of the difference between what he normally receives and what the retailer normally sells.

At the present time, there is the Mexican farmer—I work with Mexicans, and we believe in fair trade. We believe in justice. We want that Mexican farmer to get a fair—why not get a minimum price in Mexico because if that food is going to come up here, these wholesalers and chain stores ain't going to give near to what it cost him, and they just get it cheaper and we will be cut out.

What we are saying, under this NAFTA as it now stands, unless all these items here are to be corrected, there is no need to consider NAFTA. All farmers must have the same opportunity and thus be similar in order to make NAFTA work.

There needs to be some mechanism in place to determine the amounts of products necessary now to be—now, you know that. There needs to be some way—I know how much tomatoes, sugar corn, cabbage, or any commodities that I grow, beans, how many of them they are going to send in here from Canada and Mexico. How do I know how many acres to put out? How am I going to meet the needs of the American people?

I think our farmers will if we can just receive one-third, and there is plenty money out of that \$1½ million that my product sold last year for and I only got \$150,000. There is \$1,350,000 just for a man to sell my product. He didn't have no expenses. Overhead. A few members in the store selling it.

There is no need in severe overproduction, nor is there any need in using up our vital national resources for no reason.

We need to move into the 21st Century. We are going to have to come out and save our environment, save our land, soil erosion, and produce just enough to be sold to consume and not one ounce more.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Brady appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much. I am afraid we are going to have to invite you back and dedicate a full day to you.

Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Fredrickson, you got in your testimony something called a Rural Competiveness Organization whose job it would be to attract capital and investment in modernizing plants and facilities and meeting environmental and other regulatory requirements, including water and wastewater facilities, and helping meet needs of beginning farmers, and also eliminating barriers for such investment as Congress can help channel needed financing and related services to agriculture and rural America without the expenditure of any Federal dollars.

What does that have to do with NAFTA?

Mr. FREDRICKSON. Mr. English, as I said in my comments here and developed further in our prepared testimony, we believe that one of the great challenges to agriculture and rural America to respond to NAFTA, both the opportunities and the challenges are to find the investment, to be able to keep our efficiencies and our competitiveness at not only its current level but to improve.



Mr. ENGLISH. Water and wastewater facilities fits into that definition?

Mr. FREDRICKSON. Yes, we believe it does.

Mr. ENGLISH. That is stretching it pretty far, Mr. Fredrickson.

Mr. FREDRICKSON. Well, perhaps it is; but we believe that this kind of investment—all of these kinds of investments are the type that are going to be required to allow our agriculture and our rural America to fully capitalise on these opportunities.

Mr. ENGLISH. It doesn't sound like that is something that fits under the label of rural development?

Mr. FREDRICKSON. In some sense, perhaps it does.

Mr. ENGLISH. Well, in the main sense doesn't it?

Mr. FREDRICKSON. No. I don't believe that that is really the case. While it would have some positive implications for rural development, the sense in which this is offered is also in the areas of young farmers and beginning farmers.

Mr. ENGLISH. Beginning farmers, we got a beginning farmers bill last year, didn't we? Didn't you come forward with that proposal last year?

Mr. FREDRICKSON. We did not.

Mr. ENGLISH. Why didn't you do that?

Mr. FREDRICKSON. We did not have a specific proposal at that time.

Mr. ENGLISH. So you didn't have the idea by that time?

Mr. FREDRICKSON. That is correct.

Mr. ENGLISH. So just kind of coming up on a NAFTA agreement looks like a good place to slap that on?

Mr. FREDRICKSON. Our sense here is that this is a way that the system and others, commercial banks, cooperatives, individuals, perhaps, rural electric cooperatives, could channel some risk capital into agriculture, into rural America, and allow us to capitalize on these opportunities that NAFTA will provide and mitigate some of the downsides in those areas where increased competition will occur.

Mr. ENGLISH. The way it looks to me, Mr. Fredrickson, to be honest with you, you are hunting a vehicle and this looks like a nice train pulling out of the station, so you would decide you would slap a few things on. They do that over in the U.S. Senate. We don't have the luxury to do that kind of thing here in the House of Representatives. They kind of have to be germane, and it looks like this whole proposal you have is way outside of any germaneness whatsoever.

I have no problem of any kind as far as something that relates specifically to NAFTA. But I assume, Mr. Chairman, we are going to have a 1995 farm bill, and that will have a rural development section that applies to this. I am sure that we are going to get into beginning farmers and all this other.

In fact, we will have some hearings that will begin looking at this probably next year. But I have to tell you, Mr. Fredrickson, I think this may be stretching it just a tad to fit this under the narrow definition of NAFTA and specifically as it applies to Mexico and Canada.

Mr. FREDRICKSON. Could I respond just a bit further?

Mr. ENGLISH. Sure.

Mr. FREDRICKSON. I would urge that the committee consider in particular the aspects of the value-added enterprises that this would make possible.

Capitalizing and initiating new ventures in our part of the country is one of the most exciting things that is going on in agriculture right now.

The emergence of value added, which is, I think, a very important part of our response to NAFTA.

Mr. ENGLISH. Well, that may very well be the case, Mr. Fredrickson. I am just telling you that I think that, for most folks and probably most people within the Congress—and I would think most members of this committee—are going to look at this as something that is a bit far afield from a narrow interpretation as to what NAFTA is all about.

This fits more into rural development. And I am all for rural development. And we are interested in any improvements we can make. I sure as heck support it. But we normally go through a process in which we weigh carefully proposals like beginning farmers.

You know, with new ideas. We would like to have an opportunity to take a look at it rather than just adopt it, slap it on, and go through and hope somebody can figure out what this is all about and that it works and does what it is supposed to.

Very quickly, Mr. Sims, I noticed through CoBank you are also talking about including ventures overseas, ventures and partnerships in foreign countries. Two real quick questions: First of all, you are talking about, I suppose, packing plants or whatever kind of thing. Would those not possibly take jobs away from the United States?

Mr. SIMS. Well, actually, Congressman English, we are seeing where our cooperatives are wanting to set up processing facilities here. That would be directed and focused directly on the Mexican market. We had a meeting in Mexico City in August where we had about 60 representatives of cooperatives where they were meeting their counterparts in Mexico. And certainly some facilities would need to be there and some here depending on the type of product that they were dealing with.

But these would be in the form of joint ventures in order to access the food distribution system in Mexico.

Mr. ENGLISH. An if there is a default with regard to those loans on those systems in Mexico, who pays for that?

Mr. SIMS. Well, it would either be the joint venture partners who would be first—

Mr. ENGLISH. In Mexico, as I understand it, under the laws, you've got a little problem. They are not real good about out-of-country claims that are made in those kinds of ventures.

How would CoBank go about recouping its money in Mexico under their laws?

Mr. SIMS. The way we operate today is working with banks in Mexico who understand those customers, and we rely on them heavily. We have done that for 10 years.

Mr. ENGLISH. You are not making loans in Mexico today?

Mr. SIMS. Yes, we are.

Mr. ENGLISH. You are?

Mr. SIMS. We have been making loans in Mexico since 1982.

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

The CHAIRMAN. Thank you.

Mr. Stenholm.

Mr. STENHOLM. No further questions.

The CHAIRMAN. Mrs. Thurman.

Mrs. THURMAN. Mr. Fredrickson—and I am glad that you all are here—but it is interesting to me that you heard Dr. Roberts, we heard Mr. Hancock talk about the impact of NAFTA as it relates to Florida agriculture, you mention in your testimony that you also understand the difficulty that will have on import-sensitive commodities and you mentioned fruits and vegetables.

Let me just tell you what is happening in Florida as far as banks go and as a result of Hurricane Andrew and as a result of maybe some citrus canker years ago and some freezes over the years.

Our folks can't get any kind of funding right now. They won't do replacement. They can't get into this. Do you know why?

Mr. FREDRICKSON. No, I do not.

Mrs. THURMAN. Because of threat of the NAFTA, because there is no return for them. Their citrus has had a bad year. They can't get there. And they are in bad financial straits because of that. We are in a different situation.

Here you are trying to expand if one part of the country, 18 here another State, who produces and is going to have a direct impact; and we can't get help to get these people back into production because of the NAFTA issue.

I guess what concerns me, in all of the testimony I have heard in favor of NAFTA, that—and maybe this is more of a statement than it is a comment—that it seems to me that we should be concerned about all of agriculture not just certain segments of agriculture. And I say that, maybe, from being a little bit from Florida and concerned about our economy.

But also, what I am probably more concerned about, as I see, particularly, in vegetables and fruit, is that what happens when we become dependent on another country for those kinds of imports. And nobody addresses that, and we have seen over the years—I mean, if NAFTA doesn't work and our farmers go out and the next thing we know we have high tariffs coming into this country or imports coming into this country, our people are put at a disadvantage with no food supply of some of the very best quality that we have today.

I don't know who responds to that. I don't know how anybody responds to that. I don't know what we do if NAFTA goes through and we find this out after the fact. It is a real alarming thing to me.

Mr. FREDRICKSON. I don't think that we have any answers that would be in any sense ultimately reassuring in that regard. Clearly there are certain segments of agriculture, certain production industries in various parts of the country, where the impact of NAFTA, as now set forth, is more likely to be negative than it is to be positive. Our testimony, I think, acknowledges that. And we would encourage strongly for this committee to take such actions or propose such actions in the implementing legislation, as it can, to make provision for mitigation.

But for anybody to contend that isn't going to be dislocation, that there isn't going to be a difficult transition in some industries, simply doesn't understand. We have in our part of the country, a very great concern about our sugar beat industry.

Mrs. THURMAN. Yes, you do.

Mr. FREDRICKSON. And as one of the major lenders to that particular sector, I can assure you that we share those concerns. Something needs and must be done there.

Mrs. THURMAN. Mr. Hancock, I want to thank you for being here today. I think you did an excellent job in reporting what happens to the Florida farmworker.

For those of you who may not have heard about a hearing that we had in Florida, it was, I think, a real eye opener as to the people who came and testified. There were over 200 people at this hearing in Orlando on a Saturday morning. And it was from processors to farmworkers to the entire segment of Florida agriculture.

We had somebody from the Labor Department here last week testifying, and we spoke specifically. Mr. Hancock, have you been able to get any kinds of assurance from this administration or through the agreement that is going to show us any way that these farm employees are going to be given any opportunities at all?

Mr. HANCOCK. I have been unable to get answers that are satisfactory, frankly. I get blithe assurance that, at some point down the road, we will have this grand new retraining scheme in place that will cushion whatever blow may flow from NAFTA. But the concerns are more immediate.

I think, as your State recognizes, they are going to see immediate impacts from NAFTA. It is not going to be down the road. It is going to be tomorrow. And that is going to immediately affect a large number of farmworkers not just in Florida but in Texas and every segment of the country.

I don't think this administration has thought about what we are going to do about retraining a very difficult population that has very specific and unique needs.

No, I haven't gotten any assurance. I know that they have suggested recently that there is something on the order of \$120 million that they are willing to raise for this. That is a drop in the bucket.

Mrs. THURMAN. To the \$250 million?

Mr. HANCOCK. Right. Just for Florida alone.

I guess the answer to the question has been, there haven't been satisfactory answers to that question. I think it goes back to the point that we heard from Mr. Fredrickson which is that there are sectors of the agricultural economy that are going to be impacted, farmworkers among them.

I don't think we focused enough attention on what we do, recognizing the economic integration is inevitable, it is going to happen; and the question then becomes what do we do to try to deal with those sectors that are going to be adversely impacted? And that is the question that hasn't been answered satisfactorily and, frankly, hasn't been dealt with.

Mrs. THURMAN. Mr. Chairman, if I could just open a question that maybe they can respond to me individually later.

The CHAIRMAN. Well you may proceed if you have another question.

Mrs. THURMAN. Let me also suggest to you that in another subcommittee of the Committee on Government Operations we have talked to many Mexican workers. And while I have heard through the testimony all day today that the increased opportunities for American industries to be selling products and different things of that nature, wages going up, now, while the Mexican Government seems to agree that that is going to happen, the actual Mexican worker is very dissatisfied that, in fact, this agreement does that.

In fact, they see it pushing their wages down and not up. So at some time you may want to take that into consideration. Or at least if you can respond back to me at another time, I would certainly appreciate how you see this turning around because they certainly do not have that feeling at all.

The CHAIRMAN. Thank you.

If Mr. Calvani would return to the table, as you are a representative of the cotton council, Mr. Stenholm, I think, has some questions for you.

Mr. STENHOLM. Mr. Calvani, you stated in your testimony the cotton industry has consistently expressed concern about NAFTA's rule of origin for textiles. That has been a concern of mine not only in the cotton and peanuts industry, et cetera. You further state, "Our members uniformly agree that the cotton industry would be better served if NAFTA included a fiber-forward rule of origin instead of the yard-forward rule that was adopted."

Would you share for the record what you mean by that?

Mr. CALVANI. The cotton council would like to have a fiber-forward rule, meaning that everything that moves across the border, from the fiber to the yarn to the finished cloth, would be made either in the United States, Mexico, or Canada.

The rule now states that if it is fabric or apparel, the fiber could be sourced from any country. If it is yarn, then it could move across the border if the fiber was produced in the United States, Mexico, or Canada.

Mr. STENHOLM. According to the agreement, yarn could be produced in any country of the world, transshipped to Mexico, and then transshipped to the United States and/or Canada under the agreement?

Mr. CALVANI. No, but fabric or apparel could contain fiber not produced in a NAFTA country.

Mr. STENHOLM. You believe that the net benefit of NAFTA for the cotton industry will be positive rather than negative?

Mr. CALVANI. Yes, sir; we think so. We think that we will be a strong competitor to supply the Mexican market and that the United States and Mexico will be able to compete with countries around the world.

We think that there will be very little cotton imported by Mexico that will come other than from the United States. We realize we could have some problems with countries, especially Pakistan, that heavily subsidize their fiber and yarn production.

We realize that is a thorn in our side, but we still think that because of the transportation costs from Mexico into the United States moving cotton both directions and yarn both directions that we will be able to compete.

Mr. STENHOLM. I personally happen to agree with you. I thank you for sharing that for the record.

Mr. BRADY. Mr. Chairman, could I ask him one question? Or I guess let me put it in the file?

The CHAIRMAN. Why don't you ask it of me.

Mr. BRADY. I will ask it of you then. I assume all cotton subsidies are going to be cut out. You will be competitive not coming in like Treasury getting my money that I paid into that, and I don't get subsidized. I presume that he is going to cut out his subsidies or have it cut out.

Is that correct?

The CHAIRMAN. Well, that has yet to be debated, Mr. Brady.

Mr. BRADY. One other thing, I would like to address to you.

The CHAIRMAN. Yes, sir.

Mr. BRADY. Now the Mexican lobbyists for NAFTA spent \$25 million in the United States.

"Mexican interests have spent \$25 million in the United States negotiating and promoting the passage of the North American Free-Trade Agreement," according to a survey by the Center for Public Integrity.

The lobbying watchdog group estimates that the Mexican Government will spend another \$5 to \$10 million by the end of this year. Charles Lewis, executive director of the center, called those estimates conservative. The figures are culled from records at the Justice Department.

Mr. Lewis estimated that Mexico has had on its payroll 33 former United States Government officials. He also identified 48 congressional staffers who have taken trips to Mexico paid for by the Mexican business alliance, called Coece. The alliance has said it paid for 76 such trips.

The center didn't estimate how much opponents of the trade accord are spending on lobbying campaigns. But the report said that at a recent lunch, Texas billionaire Ross Perot indicated that he would be willing to spend \$25 million on television advertising if the agreement's supporters spent that much.

Now, we have too many lobbyists, high lobbyists in all these commodities that are being subsidized. And all of this being in Mexico. And Canada has threatened last week to almost pull out on account we are going to restrict their wheat, certain brands.

So I think the whole thing is going to have to be negotiated. I think it is absurd just to think we are going into something like a blind mule. And the details haven't been worked out.

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

Mr. Dooley, do you have any questions?

Mr. DOOLEY. Yes, just a couple, Mr. Chairman. Thank you.

Mr. Hancock, I just had a chance to review your testimony. I appreciate your concerns for farmers because I come from a district in California where we grow a lot of specialty crops and we found a lot of the labor and the processing industry that went down to Mexico is actually coming back into the United States because they have found that they can deliver tomatoes and a lot of other produce cheaper, develop, processing in California, than they can in Mexico. So we are actually seeing a reversal of industries that have actually gone south.

That might be a little different than what the situation is in Florida.

What I was reading your testimony, though, you make a statement that you think that the agreement should include and expand it where we maintain and strengthen United States pesticide and other environmental standards and then harmonize Mexico standards with those of the United States.

Do I understand that your organization, then, is supporting an international harmonization of pesticide residues and standards?

Mr. HANCOCK. I think if we are going to enter into a trade agreement as has been proposed with NAFTA, that one of the things that we ought to demand is that we have a level playing field.

I think that American agriculture is faced with some competitive disadvantages. They do not have access to some of the tools that the Mexican industry is going to have, and for very good reason.

There are a lot of pesticides that we deem, based on good sound science, as to be inappropriate and have restricted and eliminated those uses. And I think what we ought to be seeking in this agreement is harmonization of Mexican standards up rather than trying to find some lower standard that we can agree to.

Mr. DOOLEY. Are you saying with that statement that this agreement is promoting a policy that is going to result in a lowering of any standards?

Mr. HANCOCK. No. That is not what I said, and that is not what I meant, if that is the implication.

What I intended to say, and what I hope comes through, is that this is a missed opportunity, that NAFTA presented us with an opportunity to harmonize up and we did not—we were not successful. If that was ever aggressively advanced during the negotiations, I don't know about it.

I think we missed an opportunity to try to bring Mexico up to our standards. And I would argue that if NAFTA is not ratified and we reenter negotiations that should be one of the guiding principles.

Mr. DOOLEY. You also defend State and local governments' right to develop standards more stringent than Federal standards.

Is there somewhat of a different standard here when you are arguing in one case what the high international standards that would be equal to EPA, by the same token you are saying that the States and localities ought to have the ability to have different standards?

Mr. HANCOCK. I think we ought to have the ability to have higher standards depending on the unique circumstances they are confronted with. Not every community, not every locality are the same.

Once we establish a minimum Federal floor, States and localities ought to have the ability, if there are unique circumstances and conditions, to go above that floor.

Mr. DOOLEY. You also, on another recommendation, when you are talking about labor standards for wages, working conditions, overtime, occupational safety and health, right to organize, and all these others, is also to move toward an international harmonization with Mexico in this case.

So once again here you are basically advocating that we do not enter into a trade agreement unless we are able to impose upon an-

other country the safety and wage and environmental conditions which we saw fit to impose upon ourselves?

Mr. HANCOCK. There ought to be some negotiation of rough equity between partners in these sorts of agreement.

Also I think that is a lesson that was learned from the integration of European economies, a recognition when they were going into there processes that there had to be some rough equivalents. The way to do that as part of the treaty is to agree on what a minimum level of labor standards ought to be, about a minimum level of enforcement, so they don't become just paper standards but real standards and insist that there is some rough equivalents in labor standards.

We are confronted now with a gross disparity. Even in agriculture in the United States, which is really operating at the lowest level of labor standards in this country, even given that, there is a gross disparity between the labor standards here and in Mexico, and it is going to work as a tremendous disadvantage for labor-intensive agriculture here trying to compete with those lower standards.

Mr. DOOLEY. How does the passage of NAFTA, though, impede the improvement of the worker-employee safety and environmental conditions in Mexico?

Mr. HANCOCK. It is not so much that it impedes it as it, again, is an opportunity lost. I think—and that was part of the—at least the implicit promise in these side agreements on labor standards.

Mr. DOOLEY. So why would we not be better served than with the passage of NAFTA if that is certainly going to have some beneficial impacts on that and then further negotiate down the road to deal with some of these other issues?

It seems like if we turn our back on NAFTA now, we are turning our back on anything other than the status quo.

Mr. HANCOCK. I am not suggesting the status quo, and I don't think status quo is realistic. Economic integration has been happening for some time. It is going to continue to happen. It should happen, frankly. It is in everyone's interest. It is just what sort of economic integration, and did we lose an opportunity? Did we lose the leverage to negotiate for what I think are important aspects of a trade agreement on labor and environmental concerns?

I guess the question that is posed is: If it is not this NAFTA, is there a chance to get another NAFTA? I can't say with any certainty that what would happen in that event. We may test it, and we may find out.

But I think we lost and missed a grand opportunity to try to accomplish some very important safeguards not only on this side of the border but for Mexican workers and environmental standards. We just didn't accomplish that. I think those are goals that are worthy of further exploration.

Mr. DOOLEY. I appreciate that and agree with a lot of what you are saying. I guess the concern of a lot of us, if we turn our back on this agreement, you basically have to have the confidence—and you are going to roll the dice—that we are going to come back with something better. I think we all hope we always do that when we enter into any agreement or negotiation.



The concern is, though, we might have lost an opportunity to have the marginal improvement which we are guaranteed with the existing NAFTA if we turn our back on that.

I appreciate your comments. I think you add a lot to this hearing. Thank you.

Mr. HANCOCK. Thank you.

The CHAIRMAN. Did the gentleman conclude?

I thank all of the witnesses for your presentation and appreciate your attendance.

The committee will stand adjourned subject to the call of the Chair.

[Whereupon, at 1 p.m., the committee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]



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# POSITION STATEMENT

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**Testimony of  
 Robert L. Walker, Secretary  
 Maryland Department of Agriculture  
 on behalf of the  
 National Association of State Departments of Agriculture  
 before the  
 House Agriculture Committee  
 U.S. House of Representatives  
 October 19, 1993**

***re: the North American Free Trade Agreement (NAFTA)***

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 860,000 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

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 SECRETARIES AND DIRECTORS OF AGRICULTURE IN THE FIFTY STATES AND FOUR TERRITORIES.

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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 manufacturing 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. farmworkers, 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 five 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 five 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 non-tariff 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 Odum, 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 U.S. 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 U.S. and Canada. Key provisions of NAFTA for U.S.-Mexico trade include:

- *Elimination of nontariff barriers* — When NAFTA goes into effect, the U.S. 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 U.S. 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 U.S. 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 U.S. 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 two percent a year and becoming increasingly urbanized, represents a significant market for U.S. agricultural products. Improved economic activity resulting 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 three 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 U.S. 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 U.S. 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.

## TESTIMONY

by

MARTHA R. ROBERTS, PH.D.

DEPUTY COMMISSIONER FOR FOOD SAFETY

FLORIDA DEPARTMENT OF AGRICULTURE  
AND CONSUMER SERVICES

Mr. Chairman, all of us in Florida agriculture thank you for the opportunity to appear before you to present again our united position in opposition to the North American Free Trade Agreement as now written. Commissioner Bob Crawford commends you for your continued leadership to insure that the voices of all of U.S. agriculture are heard.

Mr. Chairman, we remain deeply concerned and deeply disappointed that our rational requests for agriculture are still unmet. We have expressed our united position to the International Trade Commission, to the U.S. Trade Representative, and to Congress repeatedly since 1990.

Contrary to rumors that agreements may have been made, Florida agriculture has three major problems that need to be fixed - citrus, fruits and vegetables and sugar.

To some 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 jobs 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.

NAFTA as now written and the side agreements as proposed are fundamentally flawed. Commissioner Crawford and a united Florida agriculture urge opposition to this unfair agreement.

It has been rewarding to be told that our concerns are legitimate and that they would be addressed. But the final agreement did not do this. From our review of the side agreements, our concerns were not substantively addressed. 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 for solutions appear to have vanished.

Our message has been consistent. The food we produce is too precious a national resource to sacrifice. In the day 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% 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 is not.

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 have stressed the need for:

A price based safeguard mechanism for perishable commodities which are extremely import sensitive

Equalization of labor, environmental, food safety, phytosanitary and sanitary requirements

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 including corn sweeteners that reflects a true world usage

A maximum phase-out period for import sensitive winter produced fruits, vegetables, and citrus until equalization of requirements can be accomplished

Strong enforcement of labor, environmental, food safety pesticide, and phytosanitary requirements

While those of you in leadership in Congress offer your assistance in implementing legislation and other remedies, an act of Congress cannot fix what requires the three countries to agree to change.

How do we explain to our nation 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. Polopolus, renown agricultural economist, is forecasting that 100,000 will lose their jobs? Many try to say for every job lost in agriculture, 5 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?

We in agriculture are not 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. 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. Agriculture is the strength of our state and provides wholesome affordable foods for consumers in the U.S. and around the world. During the winter months we provide the only U.S. 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.

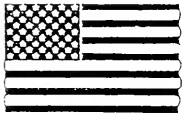
As a matter of geography and latitude, Florida and Mexico will be in direct competition in fruit and vegetable production. In addition, Florida as a subtropical state is extremely vulnerable to imported plant pests and diseases. Our agency has spent over \$180 million in the last 15 years combatting 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 even see our nation's defense diminishing for 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, why can't we be fair in what we demand of our farmers compared to our neighboring farmers to the south.

Our latest United Position, dated September 22, 1992, endorsed by all major commodity groups representing citrus, fruits, vegetables, sugar, as well as the Florida Farm Bureau and the Florida Cattlemen's Association, is attached for your record along with a Resolution of the Florida Governor and Cabinet. Our concerns have still not been addressed.

This NAFTA is the wrong NAFTA.

(Attachments follow:)



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 I: 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  
 leechec 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 tariffed. The U.S. has a Section 22 waiver, and inasmuch as Canada's dairy and poultry regimes will not be tariffed, 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

## RESOLUTION

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

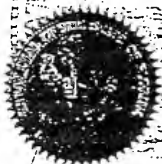
WHEREAS, differences in environmental protection, labor requirements, farm worker safety, sanitation laws and workers compensation give Mexican growers an advantage to the detriment of Florida growers in what should be a fair trade agreement.

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.



*Lawrence Chiles*  
LAWRENCE CHILES  
GOVERNOR

*Jim Smith*  
JIM SMITH  
SECRETARY OF STATE

*Bob Butterworth*  
BOB BUTTERWORTH  
ATTORNEY GENERAL

*Gerald Lewis*  
GERALD LEWIS  
COMPTROLLER

*Tom Gallagher*  
TOM GALLAGHER  
TREASURER

*Bob Crawford*  
BOB CRAWFORD  
COMMISSIONER OF AGRICULTURE

*Jeffrey Casper*  
JEFFREY CASPER  
COMMISSIONER OF EDUCATION

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION  
TO THE HOUSE AGRICULTURE COMMITTEE  
REGARDING THE NORTH AMERICAN FREE TRADE AGREEMENT

Presented by Keith W. Eckel  
President, Pennsylvania Farm Bureau  
and Member,  
American Farm Bureau Federation Board of Directors

October 19, 1993

My name is Keith Eckel, and I am president of the Pennsylvania Farm Bureau. I am appearing before you today as a representative of the American Farm Bureau Federation, for which I serve on the Board of Directors. I grow tomatoes, sweet corn and other produce on my farm in Clarks Summit, Pennsylvania. I am also representing Ag for NAFTA, a coalition of 167 agricultural organizations supporting the North American Free Trade Agreement (NAFTA).

The American Farm Bureau Federation, the nation's largest organization of farmers and ranchers, appreciates this opportunity to present its views in support of 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 U.S.; it can get it from Canada or Denmark. Mexico does not need to buy wheat from the U.S.; 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 Maquilodora 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 GAO report often cited 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.



## NATIONAL FARMERS UNION

TESTIMONY OF LELAND SWENSON, PRESIDENT OF THE NATIONAL FARMERS UNION. PRESENTED TO THE HOUSE COMMITTEE ON AGRICULTURE. OCTOBER 19, 1993

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 month approximately 250 of our members traveled to Washington D.C., 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 do not believe it is 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 Richard 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 4 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 trans-shipment. Under the CFTA, Australian beef is shipped into Canada and then comes into the U.S. 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/US 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 U.S., 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.

In documenting our case, I draw your attention to the accompanying chart A-1, drawn from the Mexican tariff schedule. 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 A-2 shows the increase in durum, all wheat, and barley to the U.S. from Canada since the implementation of the Canadian Free Trade Agreement.

Charts A-2 and A-3 clearly document the increased import levels from Canada since the implementation of the Canadian Free Trade Agreement in peanut products, sugar products, beef and beef products, pork, wheat, and barley, and clearly demonstrate the 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, there 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?

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 impacted 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 trans-shipment 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 \$.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 \$.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 trans-shipment, 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.

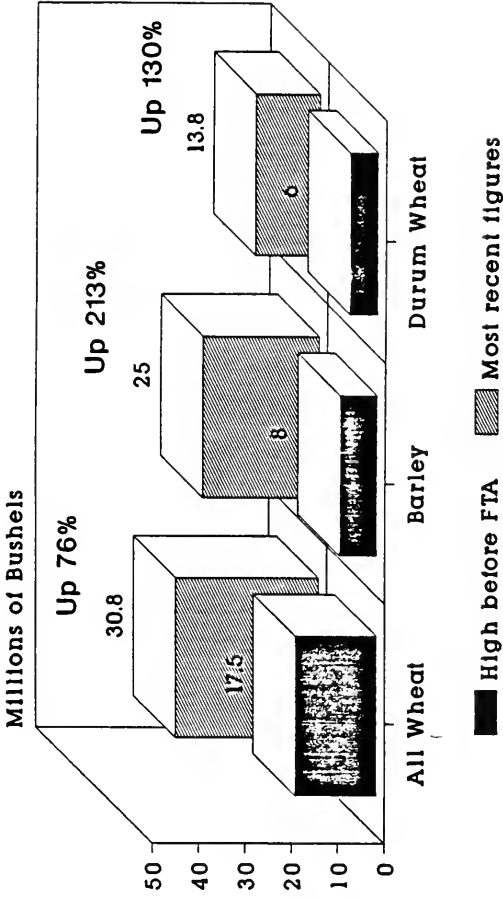
(Attachments follow:)

Chart A-1

PRESENT RESTRICTIONS	COMMODITY	TARIFF FREE QUOTA	1985-1991 AVERAGE EXPORTS	1994 TARIFF OVER QUOTA
\$ .77/ctlo \$7.70/MT—Import License	Wheat (including durum)	0	254,288 MT	15% reduced to 0 over 10 years
\$ .02/ctlo	Corn	2.5 Mil. MT	2,884,931 MT	\$206/MT but not less than 215%. Reduced to 0 after 15 years
\$ .23-.34 ctlo on barley/	Barley	120,000 MT	188,000 MT	\$155/MT but not less than 128% for barley; \$212/MT but not less than 175% for malt. Reduced to 0 after 10 years.
Duty free except 15% between Aug. 10-Jan. 31	Soybeans	Unlimited	1,145,436 MT	Seasonal tariff reduced from 15% to 10% and the suitable season reduced from Aug 1-Jan 31 to Oct 1-Dec 31. Tariff to be reduced over 10 years.
Import Licensing Systems	Dry Edible Beans	80,000 MT	90,278 MT	\$480/MT but not less than 139%. Reduced to 0 after 15 years.
\$2.24/ctlo on fresh, chilled and frozen pork	Pork & Poultry	383,000 HD 21,032 MT	124,430 HD 68,300 MT	In quota 18% to be eliminated over 10 years. Over quota 20% to be eliminated at the end of year 10.
15% on live slaughter cattle 20% on fresh and chilled beef	Cattle & Beef	0	133,079 HD 41,166 MT	Tariffs to be eliminated
Import license on milk powder and cheese	Dairy	40,000 MT of milk powder 0—cheese	41,915 average milk powder 1,891 MT/Cheese	\$1,160/MT not less than 139%. 20% cheese tariff to be reduced over 10 years
10% for rough and broken rice 20% for brown and milled rice	Rice	0	135,508 MT	Present tariffs to be phased out over 10 years
Licensing system	Tobacco	0	2,886 MT	80% tariff to be eliminated over 10 years

Chart A-2

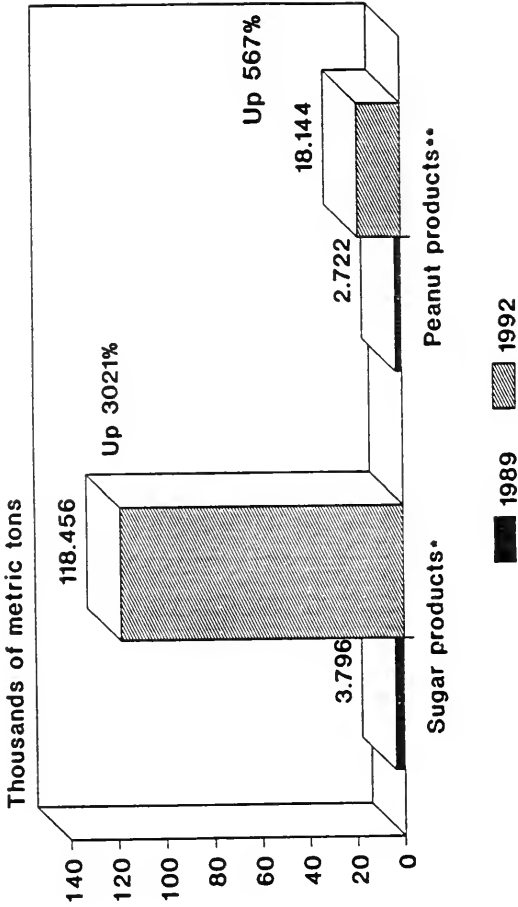
# Canadian Grain Imports Climb Following Free Trade Agreement



Sources: USDA-FATUS 1992, North Dakota Barley Council 1993

Chart A-3

# Canadian Processed Foods Imports Explode Following Free Trade Agreement



Sources: U.S. Sugarbeet Growers Assn. 1993  
Georgia Peanut Council 1993

\* Products containing 60-99% sugar  
\*\* Peanut butter & peanut paste

**Note: Canada has no peanut production**

AGRICULTURE AND THE NORTH AMERICAN FREE  
TRADE AGREEMENT\*

G. Edward Schuh\*\*

Mr. Chairman, I am pleased to appear before the Committee once again to offer testimony on the North American Free Trade Agreement (NAFTA). As you know, I appeared before the Committee just a little more than a year ago to testify on behalf of this important Agreement. At that time, we were just beginning the work of a Task Force of the Council for Agricultural Science and Technology to assess the impact of the Agreement on agriculture. I thus addressed what I believed would be some of the important issues arising from the agreement.

The report of that Task Force has now been completed. The formal remarks I have submitted for the record consist of the Executive Summary of that report. The Council would also like the entire report to become part of the record.

In my oral comments today I do not propose to go over in detail what we have included in the Executive Summary. Instead, I want to pick out a few of the highlights, and emphasize a few points I believe to be salient to the issues we face as a nation as we decide whether to ratify the NAFTA.

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\* Testimony presented to the Committee on Agriculture, U.S. House of Representatives, Washington, D.C., October 19, 1993.

\*\* Dean and Professor, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, Minneapolis.

I would like to begin by addressing the employment issue, since it seems to receive much of the attention in discussions of the Agreement. Opponents of the Agreement argue for the continuation of protectionist measures on the grounds that they are needed if we are to protect jobs in the United States. Those who believe protectionism can protect or create jobs need only look to the region south of our border. The countries of Latin America have pursued protectionist, import-substituting industrialization policies throughout most of the post-World War II period. The result has been stagnant economic growth, very slow growth in employment, and the continued impoverishment of the poor. The handful of countries in Southeast Asia, however, that pursued more open economic policies have prospered, seen their economies grow rapidly, and had rapid growth in employment.

The countries of Latin America have learned from their painful experience. They are opening their economies, and beginning to reap the benefits. These countries include Chile, Mexico, and Argentina. Why would this country want to ignore the object lessons we have so close at hand, and which other countries have learned so well? And why would we want to ignore this country's experience with the Smoot Hawley bill, which contributed so much to the Great Depression of the 1930s?

The reduction in barriers to trade almost always imposes painful adjustment costs on some groups in the country lowering its barriers to trade. Unfortunately, those who bear the costs tend to bear them in a concentrated way, while the benefits of free trade tend to be widely diffused among the populace, and especially in favor of the



consumers. That is why lowering trade barriers is so difficult in a political democracy.

Our experience with the automobile industry indicates the benefits from free trade. The U.S. automobile industry has risen to meet the challenge of the competition from the Japanese automobile industry. They developed higher quality automobiles, and at a lower cost. In fact, the U.S. automobile industry is now so efficient that it is beginning to compete internationally again. That is where the real job creation will come.

Another important issue is the environmental consequences of the Agreement. If environmental issues had been neglected in the Agreement, there might be a case for arguing that the failure to address environmental issues could give Mexican producers an advantage. But these issues have not been neglected. To the contrary, this is the "greenest" trade agreement ever negotiated.

Mexico is already the third largest trading partner of the United States, after Canada and Japan, with bilateral trade amounting to \$59 billion in 1990. U.S.-Mexican bilateral trade in agricultural products reached a record level of \$5.1 billion in that same year, about \$1 billion higher than in 1988. Mexico was the fourth largest single market for U.S. farm exports, after Japan, Canada, and Korea. U.S. farm exports to Mexico attained a record high of \$2.55 billion in 1990.

Mexico was this country's second largest supplier of agricultural imports in 1990, with total Mexican shipments a record \$2.6 billion. However, much of the trade between the two countries tends to be complementary in the sense that each country exports products that the other country produces in limited quantities. For example, the major U.S. agricultural imports from Mexico in 1990 were fresh vegetables, live (feeder) cattle, coffee, fresh noncitrus fruits, and fresh melons. The major U.S. agricultural exports to Mexico in 1990 were corn, grain sorghum, soybeans and soybean products, sugar, dried beans, seeds, beef and veal, animal fats and oils, cattle hides, dairy products, poultry meat, live cattle, and wheat.

Horticultural products now make up a major part of U.S. agricultural imports from Mexico and have grown more rapidly than other imports from that country. In recent years, Mexico also has become an important U.S. supplier of processed foods, including tomato paste and beverages, such as fruit juice and beer. From the U.S. side, grains have typically been the largest export item. Exports of dairy, livestock, and poultry products have grown the most rapidly in recent years.

Making an assessment of the impact of the Agreement on the U.S. agricultural sector is made difficult by the fact that Mexico is reforming its agricultural sector. Our empirical knowledge about how the agricultures of the two countries are connected also limits the rigor of any empirical estimates that might be made. However, the most ambitious attempt to estimate these benefits suggests that U.S. agricultural exports to

Mexico are expected to grow by \$480 million, while Mexican exports to the United States are expected to increase by \$170 million. Thus, U.S. agriculture is a net gainer. On balance, U.S. farm income is expected to increase by up to \$200 million. Agriculture is a significant beneficiary of the Agreement.

Gainers on the U.S. side are expected to be producers of grains, oilseeds, and livestock. Those expected to lose are producers who compete with Mexican fruits and vegetables. These losses are expected to be concentrated in Florida.

It should be noted that these estimates of who will gain and who will lose from the Agreement, and by what relative amounts, are based on static models. They do not take into account the increases in income that will come from the reduction in trade barriers. The Task Force emphasized in its report that the real benefits from such an Agreement come from the dynamic effects, or from the growth in per capita incomes as a result of the reduction in barriers to trade. These dynamic effects can swamp the effects estimated from a static perspective.

That is where the U.S. agricultural sector can expect to gain, and in a substantial way. With their relatively low per capita incomes, Mexican consumers can be expected to increase their demand for food and agricultural products significantly as their per capita incomes rise. Given the low level of technology available to the Mexican producer, and the current low level of efficiency in the sector, it is most unlikely that

domestic producers will be able to meet this rising demand. U.S. producers will have a growing market to fill.

Another important issue will be what happens to the value of the Mexican peso in foreign exchange markets. If the freeing up of the Mexican economy as a result of the Agreement leads to an inflow of investment funds for the Mexican economy, this will bid up the value of the peso. A rise in the real value of the peso will cause the Mexican price of U.S. commodities to decline, and the U.S. price of Mexican exports to be more expensive. This can be an important factor shifting the balance of trade in agricultural commodities between the two countries in favor of the United States.

The challenge to policy makers in gaining approval of the Agreement, and in realizing its full benefits, is to deal with the adjustment problems faced by some producer groups. It is unfortunate that we tend to neglect this issue in most discussions of trade liberalization. As I noted earlier, there are clearly losers in any significant reduction in barriers to trade. It is not sound policy to ignore the consequences to those who bear its costs. We need retraining programs, programs to relocate producers and workers displaced by the reduction in barriers to trade, and programs that sustain these displaced workers while they seek new employment. These programs can be implemented independently of the Agreement, but they should be an important part of our domestic policy.

A related issue is to assure that our producers have the latest in new production technology. It is this technology, and the increase in productivity it brings, that will ultimately protect jobs and our economy. In the case of agriculture, that means that we need to sustain and increase our investment in agricultural research. This will be the key to raising productivity, and to developing alternative crops that can substitute the commodities the Mexicans can produce more efficiently.

This raises another issue, Mr. Chairman, and one that I addressed when I was here a year ago. There is probably nothing more misleading than the argument that low wages in another country is the main source of a competitive edge. If that were the case, all of our industry would be rushing to Haiti, to India, and to Bangladesh. The point of it is that competitiveness is determined by productivity, not the price or wage of labor. That is why this country competes so well with other countries even in goods that use a lot of high-priced labor. It sells our private sector short when we fail to recognize our ability to compete. Not only are our workers more productive, we have a transportation system, communication system, and distribution sector second to none. This adds to our competitive edge.

Finally, in making a final assessment of the Agreement, we have to recognize that we do live in an interdependent global income. This country has benefitted greatly from the free trade stance it has pursued during the post-World War II period. Over the last five-year period, some 70 percent of the new jobs created in this economy can be

accounted for by our increases in exports. In the case of agriculture, as well as in other sectors of our economy, international markets are likely to be the key to increasing employment. What we need to keep in mind, however, is that trade is a two-way street. We have to let other countries export to us if we want to export to them.

An important advantage to this country of lowering our barriers to trade is that it gives us a more efficient economy. The competitive forces, painful as they may be, cause us to be more efficient, to adopt the latest in new technology, and to invest in our economy. Those are the keys to our future standard of living. Turning inward behind protectionist barriers, or retaining what barriers we already have, will not give us a secure future, nor will it expand our markets or increase our employment.

Mr. Chairman, I would like to make one final comment in concluding. The North American Free Trade Agreement is one of the most innovative ever to be negotiated. It is the first to have environmental provisions included. It is the first to have labor issues spelled out in detail. It is the first to insist on the scientific conditions in evaluating nontrade barriers to trade. It is the first to provide for the extensive consultation it provides. And it is the first to provide for trade retaliation as a means of enforcing the terms of the Agreement. It is difficult to imagine an agreement with more safeguards in it.

(Attachment follows:)

AGRICULTURE AND THE NORTH AMERICAN FREE  
TRADE AGREEMENT\*

G. Edward Schuh\*\*

Mr. Chairman, this past year I served as Chair of a national task force to make an assessment of the impact the North American Free Trade Agreement would have on U.S. agriculture. This task force was sponsored by the Council for Agricultural Science and Technology (CAST). The report of the task force has been published as U.S. Agriculture and the North American Free Trade Agreement, dated July 1993.

My remarks for this Hearing will be drawn from, and in some cases be an augmentation of, the material in the Executive Summary of the Report. We respectfully request that both the Executive Summary and the full text of the Report be entered into the record of these Hearings.

In the process of doing that, I would like to correct a mistake in the Executive Summary of the Report. In the first paragraph in the right-hand column of page 5, the following statement appears: "Frozen orange juice exports from Mexico are expected to increase substantially, but at the expense of Brazil, not Florida." That is the way it

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\* Testimony presented to the Committee on Agriculture, U.S. House of Representatives, Washington, D.C., October 19, 1993.

\*\* Dean and Professor, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, Minneapolis.

originally read in the text as well. Reviews of the draft report suggested, however, that a change in wording was needed. Therefore, on page 32 of the text one now finds the following statement: "Frozen orange juice exports from Mexico will increase substantially. There is disagreement, however, over whether these imports will be at the expense of Brazil or Florida."

My oral testimony is contained in a separate paper.



# U.S. Agriculture and the North American Free Trade Agreement

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Council for Agricultural Science and Technology

# Council for Agricultural Science and Technology

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## Foreword

The CAST National Concerns Committee recommended to the board of directors that CAST prepare a report addressing issues related to the North American Free Trade Agreement with emphasis on Mexico. The topic was approved by the CAST Board of Directors at the February 1991 board meeting.

Dr. G. Edward Schuh, dean of the Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, Minneapolis, was selected to serve as chair of the task force. A highly qualified group of scientists was chosen to serve as authors and reviewers and includes persons with expertise in agricultural economics, animal science, economics, food processing, food science, plant sciences, and world trade.

Dr. Schuh prepared an initial draft of the report. A task force meeting was held for the authors to discuss the issues and to modify the draft document. All authors and reviewers assisted in revising all subsequent drafts and reviewing the proofs. The CAST Executive and Editorial Review committees reviewed the final draft. The CAST staff provided editorial and structural suggestions and published the report. The chair, authors, and reviewers are responsible for all scientific content in the report.

On behalf of CAST, we thank the authors and reviewers who gave of their time and expertise to prepare this report as a contribution of the scientific community to public understanding of the implications

of the agreement. Also, we thank the employers of the authors and reviewers who made the time of these individuals available at no cost to CAST. The members of CAST deserve special recognition because the unrestricted contributions they have made in support of the work of CAST have financed the preparation and publication of this report.

This report is being distributed to members of Congress, the U.S. Department of Agriculture, the Environmental Protection Agency, the Food and Drug Administration, the Agency for International Development, Office of Technology Assessment, Office of Management and Budget, media personnel, and to institutional members of CAST. Individual members of CAST may receive a copy upon request. The report may be republished or reproduced in its entirety without permission. If copied in any manner, credit to the authors and CAST would be appreciated.

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## Summary

### Introduction

The Prime Minister of Canada and the Presidents of Mexico and the United States have initialed a North American Free Trade Agreement (NAFTA). This agreement must be ratified by the legislative bodies of the three countries before taking effect. The objective of this report is to clarify the issues involved in liberalizing trade by means of such an agreement, with special emphasis on agriculture.

The report is divided into six parts: (1) a brief description of the setting for the agreement, (2) a discussion of general issues in international trade and trade liberalization, (3) a description of agricultural trade patterns on the North American continent, (4) a discussion of agriculture in the agreement, (5) an analysis of the overall NAFTA impacts on the agricultural sector, and (6) a discussion of some special issues. Because of the subtleties of trade liberalization and the lack of "hard" analytical data that provide precise estimates of the impact of the agreement, the report attempts to provide a qualitative analysis of expected consequences, costs, and benefits.

### Setting

The United States has provided global leadership during the post-World War II period to lower international barriers to trade. It also has provided much of the leadership for the current round of multilateral trade negotiations, with special emphasis on lowering barriers to trade in agricultural products.

The proposed North American Free Trade Agreement has been preceded by a Canada-United States Free Trade Agreement, which was signed in 1988. The NAFTA offers an historic opportunity for Mexico and the United States to forge a new relationship, in a setting in which relations in the past have been strained. With formal mechanisms for dispute settlement, whatever tensions that may emerge as barriers to trade are lowered can be resolved without erupting into larger confrontations. If approved, the NAFTA will become the world's largest free trade area—360 million people annually producing \$6.2

trillion of goods and services and exporting and importing more than \$1 trillion worth of goods.

Mexico is well into a process of unilaterally reforming its domestic economic policies and lowering its barriers to trade. Average tariffs have been slashed from 29 to 10%, and import licenses, once required for virtually all products, now apply to fewer than 5%. Price controls and product standards favoring domestic suppliers and cartels have been relaxed or eliminated. Limits on foreign participation in petrochemicals, finance, and manufacturing have been eased, and protectionist industrial policies for automobiles, computers, and pharmaceuticals have been liberalized. An important benefit of the NAFTA to the United States is that it will lock in the reforms Mexico has undertaken to date and commit the country to timetables for dismantling most remaining interventionist policies.

The NAFTA will phase out 90% of all tariffs among the three countries over 10 years and eliminate remaining tariffs on politically sensitive products over 15 years. Virtually all import quotas and licensing requirements will be eliminated. These provisions will end most U.S. restrictions on imports of apparel and Mexican limits on imported cars and trucks. They also will create bilateral free trade in corn, beans, fruits, vegetables, and other farm products.

### General Issues in International Trade

1. The president of the United States has the right to negotiate treaties with other countries, but the U.S. Congress must approve such treaties when they have an impact on the provisions of domestic legislation. Under what is referred to as "fast track" authority, Congress can only vote such treaties up or down; it can not alter them. Moreover, it has 90 calendar days followed by 90 session days from the time such an agreement is signed to vote on it.
2. The politics of trade liberalization are difficult because the benefits tend to be widely diffused and

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in favor of consumers, while the costs tend to be more concentrated and experienced by private firms and labor. When benefits are small to the recipient and widely diffused, there is little incentive to organize to bring them about, even though they may be quite large in their sum total. When the costs are larger for the individual and those individuals are concentrated, there are ample incentives to organize to avoid them.

3. There has been a remarkable expansion in international trade in the period since the end of World War II. This growth in trade is rooted in significant technological breakthroughs in the transportation, communication, and computer sectors which have enormously expanded the scope for trade.
4. Increased international trade can be a powerful source of economic growth. It creates a more efficient use of resources, the realization of external economies that significantly lower costs, and promotes increased competition that also lowers costs for both producers and consumers. These dynamic effects literally swamp the static effects usually accounted for in assessing the benefits and costs of trade liberalization.
5. The increases in per capita income associated with trade-induced economic growth can be a powerful source of expanding markets. This will be especially important in the case of Mexico because its per capita income is relatively low, it has come through a decade of economic stagnation, and international trade is relatively important to it. Thus, the prognosis is that the lowering of barriers to trade between Mexico and the United States will create strong markets for U.S. agricultural producers.
6. U.S. labor groups tend to be concerned by the low wages in Mexico, which they believe will result in the loss of jobs to that country. That concern is, for the most part, misguided. The real issue is the cost of labor services, not the wage rate. High levels of productivity in the United States tend to give U.S. workers an advantage even though their wages are much higher than in Mexico. This advantage is reinforced by the efficient marketing system and physical infrastructure in the United States. The rise in the real value of the peso as capital flows into Mexico in response to recent economic reforms will also cause Mexican producers to become less competitive relative to U.S. producers.

7. Protectionist measures tend to engender additional protection because they cause the domestic economy to lose its competitiveness relative to other countries. Moreover, the benefits of protection usually are short-lived because protection attracts additional resources to the sector, which soon drives the rate of return in the sector down to the level it was prior to the protection. Incomes and employment can only be protected in the long run by investing in the education and training of the labor force and in research and development to sustain the competitive edge of the sector.

## Agricultural Trade on the North American Continent

The United States is already the dominant supplier of agricultural imports to Mexico and would tend to strengthen its position under the agreement because of preferential reductions in some barriers to trade. In 1989, Mexico imported approximately \$2.7 billion of U.S. agricultural goods, while, at the same time, exporting nearly \$2.3 billion of agricultural goods to the United States. The United States accounted for an estimated 90% of Mexican exports and supplied 75% of Mexico's agricultural imports. Mexico, for its part, accounted for less than 7% of U.S. agricultural imports and 11% of U.S. agricultural exports in that same year.

Mexico's principal exports to the United States are coffee, fruits and vegetables, and live cattle. Mexico's processed agricultural exports (frozen and canned vegetables, fruit juices, and beer) to the United States have become increasingly important, however. The main farm exports from the United States to Mexico have been feed grains, oilseeds, live animals, meat, and dairy products.

Detail on relative levels of agricultural protection in the three countries and on trade patterns with Canada are included in this section of the report. Canada is a relatively small trading partner with Mexico.

## Agriculture in the NAFTA Agreement

The detailed provisions of the NAFTA entail a rather sizeable volume of fine print. The material presented here covers only the main provisions pertinent to understanding the agreement.



## Summary

## Background

Barriers to trade can be reduced by a number of means. The most comprehensive institution for discussing such reductions is the General Agreement on Tariffs and Trade (GATT) and the periodic Multilateral Trade Negotiations (MTN) it sponsors. The eighth round (Uruguay) of such multilateral negotiations is now underway. Provision is made in the NAFTA for whatever agreement might be reached in those negotiations.

Another means of lowering barriers to trade is to negotiate agreements for economic integration, such as EC-92, the Canada-United States Free Trade Agreement, and the NAFTA. Still another is the unilateral reduction in barriers to trade, such as Mexico has done in recent years.

## General Trade Provisions

General provisions of the NAFTA that have implications for agriculture include those that clarify and streamline the customs administrative procedures, those that attempt a clear statement of principles to govern the operation of national standards that affect trade, those that aim to improve the dispute settlement provisions of the Canada-United States Free Trade Agreement, and the addition of a permanent commission and secretariat to offer a degree of institutional support and continuity to the agreement. There also are agricultural implications for the decisions on intellectual property rights and on investment in Mexico.

Two important features of the general provisions of the agreement are the general tendency to replace nontariff barriers to trade with tariffs and the tendency to phase out current levels of protection over a period of years. No nontariff barriers are to remain from the date of entry into force of the treaty, except for those specifically allowed by the GATT or by the NAFTA text.

All tariffs on agriculture are, in principle, subject to elimination on the schedules agreed to in Chapter Three of the accord. Although a number of agricultural tariffs are scheduled for immediate reduction, a few that are politically sensitive have relatively slow reduction schedules.

The agricultural component of the NAFTA can be viewed as a trilateral agreement that covers a range of agricultural trade issues, together with two new bilateral agreements between Mexico and the United States and between Canada and Mexico. It is the United States-Mexico bilateral that breaks new

ground, in that it includes a waiver of the right to impose quantitative restrictions when domestic programs are threatened by imports.

Sugar is a particularly contentious issue from the U.S. side. Negotiators have worked out a complicated path toward complete liberalization by the end of 15 years. U.S. marketing orders are a concern of Mexico; the NAFTA text ensures "domestic treatment."

## Sanitary and Phytosanitary Regulations

Sanitary and phytosanitary regulations are often used as disguised barriers to trade. The NAFTA gives considerable attention to these regulations, in contrast to the Canada-United States Trade Agreement, which largely deferred a discussion of them to the future. Although individual countries are given a great deal of latitude in setting their own standards, they are constrained to offering national treatment to imports and equal treatment to countries with similar conditions.

## Environmental Provisions

Environmental concerns have been a controversial issue for agricultural producers in the United States. The provisions on sanitary and phytosanitary standards entail many of the environmental issues and should, in principle, provide ample protection against discriminatory practices.

The environmental provisions of the agreement attempt to establish the same standards for Mexico as those that prevail in the United States. The difficulty is in the disparity in enforcement capabilities between the two countries, with Mexico having much less capability for enforcement than the United States. President Clinton has proposed a side agreement that will provide stronger provisions than in the agreement itself. Mexico and Canada both object to such a side agreement.

## Projected NAFTA Effects on U.S. Agriculture

There have been a relatively large number of attempts to estimate the expected impact of trade liberalization under the NAFTA. Unfortunately, there is considerable variation in the size of the predicted effects, based in large part on differences in approaches and in the assumptions on which the models used to estimate the effects are based. Fortunately, there

is considerable consistency in the direction of the expected effects. The projected effects are thus discussed for the most part in general terms rather than in terms of point estimates.

This section of the summary begins with a brief review of existing trade patterns and of recent reforms in the Mexican agricultural sector. The following sections present, in a summary fashion, the projected effects of the NAFTA on U.S. agriculture at the following levels: (1) economy-wide, (2) sectoral, (3) commodity-specific, (4) processed foods, and (5) regional effects.

### Background

Mexico is the third largest trading partner of the United States, after Canada and Japan, with bilateral trade amounting to \$59 billion in 1990. U.S.-Mexican bilateral trade in agricultural products reached a record level of \$5.1 billion in that same year, about \$1 billion higher than in 1988. Mexico was the fourth largest single market for U.S. farm exports, after Japan, Canada, and Korea. U.S. farm exports to Mexico attained a record high of \$2.55 billion in 1990. Mexico was this nation's second largest supplier of agricultural imports, with total Mexican shipments a record \$2.6 billion in 1990.

Agricultural trade relative to agricultural gross domestic product is far more important to Mexico than it is to the United States. In addition, much of the United States and Mexican agricultural trade tends to be complementary in the sense that each country exports products that the other country produces in limited quantities. For example, the major U.S. agricultural imports from Mexico in 1990 were fresh vegetables, live (feeder) cattle, coffee, fresh noncitrus fruits, and fresh melons. The major U.S. agricultural exports to Mexico in 1990 were corn, grain sorghum, soybeans and soybean products, sugar, dried beans, seeds, beef and veal, animal fats and oils, cattle hides, dairy products, poultry meat, live cattle, and wheat.

Horticultural products now make up a major part of U.S. agricultural imports from Mexico and have grown more rapidly than other imports from that country. In recent years, Mexico also has become an important U.S. supplier of processed foods, including tomato paste and beverages, such as fruit juices and beer. From the U.S. side, grains have typically been the largest export item. Exports of dairy, livestock, and poultry products have grown the most rapidly in recent years.

Assessing the expected effects of the NAFTA is

complicated by the significant process of policy reform Mexico has been undertaking. It has shifted the domestic terms of trade in favor of agriculture by substantially devaluing its currency in real terms and unilaterally reducing the protection of its manufacturing sector. The communal system of owning land (the *ejido* system) is being phased out and the land transferred to private ownership. The large parastatal, CONASUPO, which spans a large part of the food distribution system, is being phased out and the food distribution sector privatized. Finally, Mexico's banking and financial system is being privatized. All of these reforms should make agriculture a more vital and productive sector.

### Economy-Wide Impacts of Trade Liberalization

As noted earlier in the summary, the dynamic effects of trade liberalization, through their induced effects on investment and the adoption of new production technology, can be expected to swamp the static effects that are usually reported from empirical studies, including those reported below. These dynamic effects arise because Mexico had one of the most closed economies in the world when it started its reform process.

Trade liberalization and the reduction of restrictions in the capital market have resulted in a substantial flow of capital to Mexico, much of it the return of Mexican capital that left the country in the 1960s and 1970s. This inflow of capital has caused the real value of the peso to rise substantially. The rise in the value of the peso could outweigh the effects of the reduction in trade barriers. Since it is a disincentive to Mexican exports and a boost to imports, the effects of trade liberalization may be significantly more favorable to U.S. producers than the static estimates suggest.

Foreign direct investment in Mexico will also help raise wage rates and help close the gap with the United States. It will also help the economy to expand, thus increasing imports from the United States. These dynamic effects of trade liberalization will rebound to U.S. producers.

### Agricultural Sector Impacts

Three conceptually different approaches have been taken to estimating the effects of the NAFTA on agriculture. These include the use of computable general equilibrium (CGE) models that encompass entire national economies, partial (sectoral) models that

## Summary

nonetheless treat a broad range of products, and specific commodity studies. The CGE approach is most satisfactory on conceptual grounds, although existing models almost necessarily simplify what are complex relationships.

The short period of time since the negotiations were concluded has precluded the development and testing of comprehensive models. However, the U.S. Department of Agriculture's Economic Research Service has developed estimates of the sectoral effects of trade liberalization for both the United States and Mexico.

U.S. exports of agricultural products to Mexico are expected to increase by \$480 million, while Mexican exports to the United States are expected to increase by \$170 million. U.S. farm income is expected to increase by up to \$200 million. U.S. consumers are expected to pay somewhat higher prices due to firmer markets, and the government will save some on program costs. On balance, the U.S. economy gains about \$300 million from the agreement, ignoring dynamic effects.

Prospects for Mexican farmers are less positive. Farm income in that country may experience a decline of \$440 million. Because of significant gains to consumers from declines in prices, net benefits to Mexico are positive, at about \$100 million, somewhat less than to the United States. U.S. grain and oilseed exports are estimated to rise by \$370 million, and Mexican horticultural exports to expand by \$100 million. This model also predicts a gain in Mexican exports of livestock, largely from increased sales of feeder cattle to the United States.

In summary, both the United States and Mexico gain from the mutual reduction in trade barriers, but so long as only static effects are taken into account, Mexican farmers would be adversely affected while U.S. farmers would stand to benefit.

## Commodity-Specific Studies

Results reported in this section draw on a study by the American Farm Bureau, as reported by Barichello and Josling. These results confirm the size of the income losses on the Mexican side (reported above) due to the increased imports from the United States. Another important finding from the Farm Bureau study is that U.S. exports of fruits to Mexico could actually increase, in addition to a more widely expected increase in vegetables exports from Mexico. This is in contrast to the fears in both the United States and Mexico that freer trade in this sector will result in substantial competitive pressures from

Mexico.

In summary, there is general agreement on the estimated effects by commodities when models using the same assumptions are used. There is generally a gain to U.S. producers of grain, oilseeds, and livestock, and losses for producers who compete with Mexican fruits and vegetables. U.S. corn sales to Mexico are forecast to increase in the range of 64 to 71%. Mexican exports of melons, cucumbers, green peppers, and tomatoes are expected to increase substantially. Frozen orange juice exports from Mexico are expected to increase substantially, but at the expense of Brazil, not Florida. To the extent there is a net increase in supply of orange juice, prices will decline. Consumers will benefit and producers will suffer income losses unless they become more efficient and lower their costs of production.

## Food Processing

Substantial shifts in food processing are taking place in the North American market, some of which will be reinforced by the NAFTA. Because the restrictions on U.S. ownership of processing in Mexico has been lifted recently, U.S. investment in horticultural processing has been growing rapidly there. Most of the major integrated fruit and vegetable producers now operate in both countries. However, some observers have been cautious about forecasting a substantial shift of horticultural processing towards the source of Mexican imports. The competitive advantage still seems to lie with the United States.

There also seems to be little likelihood that processing of grains and oilseeds will shift to Mexico. The three principal processing industries (fats and oils, milled grain, and animal feed) are in highly concentrated, high technology, capital-intensive industries, and the larger U.S. firms are generally regarded as lower cost producers. Very considerable Mexican transportation and storage problems must be added to these advantages of location in the United States.

In summary, it is especially difficult to assess the full impact of the NAFTA on the food processing sector. The lack of research gives little basis for making judgements and the uncertainties are rather great.

## Regional Effects

The dislocations and benefits of the agreement will tend to have strong regional effects. The fruit and vegetable producers in Florida, California, and Arizona will bear a significant share of the adjustment costs from trade liberalization. Most analysts believe

these adjustments will tend to be concentrated in Florida. A major share of the producer benefits of freer trade will be realized in the midwest grain producing and livestock states, and possibly in dairy areas. Thus the benefits will be realized in one part of the country while the costs will be borne in another.

### Some Final Thoughts on Expected Effects

The benefits to agriculture will go beyond the narrow subsector effects discussed above since the result of liberalization will be an increase in the demand for total agricultural output in the United States. Increased demand for specific commodities will spill over into other sectors. In addition, the effects of the agreement will be spread out over time. This gives both producers and policy makers time to deal with the implied adjustment problem.

## Special Issues

A number of special issues follow from the material presented in the previous sections. In some cases these issues involve "what if" questions about the future.

### A Different Cuban Government

Cuba has the potential to produce almost any of the fruits and vegetables that might be involved in trade among Mexico, Canada, and the United States, and is currently a significant producer of sugar. If Cuba should shift to a more market oriented policy associated with a change in government, the United States would almost surely want to trade with it.

This would not likely raise an immediate threat to U.S. producers because the shift to a market economy would not occur overnight, as illustrated in Eastern Europe and the former Soviet Union. Moreover, if reform of the economy would lead to significant increases in per capita income, the domestic economy would absorb a significant part of the increased production, although that would not likely be the case with sugar. Finally, the United States could negotiate a trade agreement specifically with Cuba, or help to bring it into the NAFTA. By that means the pace at which trade would be liberalized would be spread out over time.

### Failure of the GATT Negotiations

This issue arises because the NAFTA has much of the proposed GATT agreement written into its text.

If the GATT negotiations should fail, these parts of the NAFTA would have to be negotiated independently. In effect, this would mean that the negotiations would have to be reopened.

### Immigration Flows

The past decade has witnessed very sizeable flows of migrants from Mexico to the United States. There are significant differences of opinion over whether a successful ratification of the NAFTA will increase or decrease that flow. The balance of opinion, however, suggests that the flow might well accelerate in the short term, but decline over the longer term. The short term acceleration will come about because of the response to lower prices in Mexico from increased imports of grain, and the ability of peasants to leave the land, given the reform of the *ejido* system, without losing the rights to whatever land they might own. The decline over the longer term will be due to the expansion of the Mexican economy and the increased jobs it will create.

### Dealing with the Adjustment Problem

Trade liberalization, as proposed in the NAFTA, creates special adjustment problems. Positive adjustment policies are needed to ease the burden of adjustment for those who experience dislocation due to freer trade. In fact, such policies are essential if the effects of dislocation are to be cushioned and the benefits of the liberalization of trade are to be fully realized.

The provision of training and retraining programs for those dislocated by the lowering of barriers to trade is the key to dealing with this problem. Literacy skills should be provided to those who need them. Both kinds of programs should be provided to all members of the family.

A more ambitious program for dealing with the adjustment problem would be to help families relocate to alternative locations for employment. In some cases subsidized credit or grants to assist in relocation and provide temporary sustenance until alternative employment is obtained would be desirable.

### Science and Technology Policy

A proper science and technology policy for agriculture can be an important means of dealing with expected adjustment problems, and can complement the kind of adjustment policies discussed above. Productivity-enhancing new production technology is the key to remaining competitive with other countries.

## Summary

Agricultural research efforts should be directed to making U.S. producers more competitive in commodities for which there is head-to-head competition. Research efforts should also be directed to identifying and improving the competitiveness of commodities which might replace those that cannot remain competitive. The Extension Services should mount special efforts to assist producers experiencing serious competitive pressures from the lowering of trade barriers.

### The Rest of Latin America?

The incentives for other countries in the region to join the NAFTA will be quite strong. Countries such as Argentina, Brazil, and Colombia are not likely to sit idly by while Mexico has special access to the large U.S. market. The participants in the NAFTA have reached agreement on the conditions other countries need to meet to become a member. Those conditions will not be met over night, but the attractiveness of the U.S. market will be such as to provide these governments strong incentives to undertake the needed reforms in their policies. Thus, over the longer term the NAFTA can be a positive means for bringing about policy reform in the region.

### Side Agreements

Emerging concerns about environmental issues, la-

bor standards, and potential surges of sugar exports to the United States have caused the Clinton Administration to propose the signing of side agreements to the negotiated agreement that provide additional means of dealing with these issues. Although it is not clear such side agreements are needed, well-structured side agreements might make the agreement more palatable to those who currently oppose it.

## Concluding Comments

The members of the CAST task force believe many of the fears of the NAFTA are not well founded. On the issue of the loss of jobs to Mexico, the United States should not want to compete with workers at the low end of the wage distribution, which seems to be the main concern. Instead, it should want to compete at the high end of the wage structure, and this requires continued investment in training and education programs. In addition, the United States faces strong competition from Germany, Japan, and the newly industrialized countries. This nation will not be able to remain competitive if it does not avail itself of the benefits of freer trade so it has as low a cost structure as possible. Protecting our productive sectors from these competitive forces is not the way to defend our standard of living. **The only way to assure that our standard of living continues to grow is to seek to make ourselves more competitive, not to protect our economy.**

(The complete report is held in the committee files.)



**FARMERS UNION**  
Milk Marketing Cooperative

**Statement of  
Stewart C. Huber, President  
Farmers Union Milk Marketing Cooperative**

**before the  
U.S. House Committee on Agriculture Public Hearing  
Regarding the North American Free Trade Agreement**

**Washington, D.C.  
October 19, 1993**

Mr. Chairman and members of the Committee, I am Stewart G. Huber, president of the Farmers Union Milk Marketing Cooperative. I own and operate a dairy farm in Waupaca County, Wisconsin with members of my family. On behalf of our more than 10,900 family dairy producer members in eight Midwest states, we thank you for holding this hearing and allowing us to testify here today.

This is not the first time I have testified before this Committee on our concerns with the North American Free Trade Agreement. Our concerns about the dairy provisions of NAFTA are on record from your September 23, 1992 hearing. Again, we want to emphasize that we support freer trade among the U.S., Canada and Mexico. However, our painful experiences with last year's Goya cheese fiasco and Swiss cheese dumping taught us there are major potholes in international trade, even under current rules. That's why we have major problems with this particular NAFTA agreement, which was negotiated by a previous administration which did not understand the interests of family dairy farmer.

We have tried repeatedly this year to correct NAFTA's most serious dairy flaws through supplemental agreements. Unfortunately, the U.S. Trade Representative's office has refused to even consider those corrections. So, at this point, the best alternative is to scrap the present agreement and start over. This would give the Clinton administration an opportunity to start with a clean slate and avoid the basic problems not corrected by the side agreements.

We have some definite concerns about the dairy provisions of the NAFTA, and advice on how they can be fixed in a new agreement. They are as follows:

**Dairy Farmers are Threatened by the Loss of Section 22**

Our most basic concern is the loss of our vital Section 22 quotas through tariffication, which gives Mexico unlimited access to our dairy market after 10 years. Section 22 has been a

cornerstone of U.S. dairy policy for decades and is the only thing protecting our industry from unfair competition in the form of cheap, subsidized dairy imports. It also protects the price support program from unlimited exposure to the cost of removing domestic dairy products displaced by imports. Tariffication is very risky, because nobody knows what the results will be next year, five years or 10 years from now. If you flood our market with even one imported dairy product, the domestic price for all milk will be driven down. NAFTA is a huge gamble with the livelihoods of this nation's dairy farmers.

NAFTA also sets a dangerous precedent for tariffication under the Uruguay Round of the GATT. While the final outcome of the Uruguay Round remains uncertain, NAFTA greases the skids for the Dunkel final draft, the Blair House agreement and other absolutely unacceptable provisions. A renegotiated NAFTA, on the other hand, could serve as a model for a new GATT which breaks the current deadlock over agriculture.

It doesn't make sense to give Mexico full access to our dairy market after 10 years under NAFTA while we have to wait 15 years for full access to their market.

Mexico gets duty free access on 5,550 metric tons of all cheese per year initially under a tariff rate quota, with an over-quota tariff of 69.5%. The duty free amount expands 3% annually until the 10th year, when full access is granted. We are very concerned about how this will effect the U.S. cheese market, given our precarious supply-demand situation and the lack of supply management. How will the 5,550 ton tariff rate quota be implemented? What steps will be taken to ensure that this Mexican cheese will not interfere with the marketing of domestic cheese?

U.S. cheeses are subject to tariffs, especially those most in greatest demand. We think they got it backwards by agreeing to accept an initial 40% tariff on the soft cheeses which Mexicans want while setting a 20% tariff on the hard cheeses they don't want. It doesn't make sense.

In milk powder, our exports to Mexico are initially capped at 40,000 metric tons annually under a transitional tariff-rate quota for a full 15 years instead of the 10-year phase-out granted to Mexican products. While this cap increases 3% annually, anything above that amount is subject to a prohibitive tariff, initially set at \$1,160 per ton but not less than 139 percent.

Further the agreement does not deal with supposedly nondairy products like casein and milk fat and protein byproducts which could also create serious loopholes.

NAFTA's tariffication provisions are totally unacceptable. We recommend that Section 22 be preserved under a new agreement, just as Canada has done for its dairy farmers under GATT Article XI.

#### **A Huge Loophole in the Rules of Origin**

NAFTA has created a huge loophole for milk produced outside North America by exempting chocolate crumb, mixtures of animal and vegetable fats and oils, and sugar confectionery not containing cocoa from the rules of origin. "All dairy inputs for these products may be non-U.S./Mexican origin," according to a March, 1993 USDA economic analysis.

This immediately raises concern, because these exempt products contain significant amounts of dairy products and can readily be used in place of domestic butterfat and milk powder to the detriment of American dairy producers and processors. It's a huge loophole and we're shocked that Congress and others in the U.S. dairy industry either don't know about it or do not take it seriously.

The exempt items are currently under quota, and for good reason, because of their significant dairy content. Sugar confectionery not containing cocoa can contain up to 45 percent butterfat by weight. These items include dairy products under quota which fall under Harmonized Tariff Schedule of the United States (1993) tariff number 1704, quota lines 9904.10.75 "dried milk, whey and buttermilk"; and 9904.10.81 "Over 5.5 percent but not over 45 percent by weight of butterfat including mixtures of nonfat dry milk and anhydrous butterfat."

Chocolate crumb is found in HTSUS heading: 1806.20.40, 1806.20.80, 1806.32.20, and 1806.90. Various products under these tariff lines are subject to the following quota lines: 9904.10.63 (regular) "contains over 5.5 percent by weight of butterfat," and 9904.10.66 (lowfat) "contains less than 5.5 percent by weight of butterfat."

Alarmed by this, we called Leonard Condon, a senior member of agricultural negotiating team at the U.S. Trade Representative's office last week, who didn't know the details. He referred us to Carol Harvey, a senior dairy official at USDA's Foreign Agriculture Service. She confirmed our basic suspicion that all restrictions on these three exempt items will be phased out after 10 years. The rules of origin will not apply. NAFTA will allow unlimited amounts of butter and milk powder from anywhere in the world to enter our market duty-free through the back door as long as the ingredients are mixed in Mexico. Mexico will be used as a staging area for non-NAFTA countries to dump their surplus butter and milk powder onto our market.

This time bomb buried in NAFTA will explode in 10 years and destroy the U.S. butter and milk powder industry. U.S. butter and powder prices will effectively be forced down to depressed world market levels if this is allowed to stand. U.S. milk prices will plummet and dairy farmers in this country will be forced into bankruptcy. It will do nothing to help Mexico, which will get some business mixing foreign dairy ingredients.

These loopholes raise many disturbing questions. Will we be able to maintain an American dairy program 10 years from now if we have this huge loophole? Whose idea was this to exempt these products, and why did they request it? We want to know if you are aware of this NAFTA loophole, and if so, do you approve of the idea? What other surprises are buried in this 2,000 page agreement?

Ireland, the United Kingdom, the Netherlands, Australia and New Zealand currently have chocolate crumb quotas totaling 11,634 metric tons. These countries received their quotas in exchange for considerations negotiated under previous trade agreements. Will these countries be compensated if NAFTA is approved, or have they already been taken care of through the unlimited access provisions after 10 years?



### Rules of Origin Must Be Strengthened

NAFTA rules of origin are woefully inadequate even for the products that are not exempted. As we've warned, dairy products are very fungible and can easily be exchanged or substituted with similar products from outside countries to circumvent the intent of NAFTA. While the agreement states that milk for certain dairy products must be produced within NAFTA country borders, there is nothing in it which prohibits Mexico from exporting its full domestic dairy production to the U.S. and meeting its domestic needs with cheaper subsidized imports from New Zealand, Poland or the European Community.

We continue to believe that the U.S. NAFTA enforcement mechanism will lack the resources and authority to effectively police compliance by Mexican dairy plants. We are disturbed at news reports that Mexico's one party government has a long history of corruption and bribery. Academic sources report that official Mexican agricultural statistics tend to be unreliable and suspect. Given this history of official corruption and lack of credible statistical data, there's no way we can be sure that Mexican plants are complying with the rules of origin.

Without on-site monitoring and inspections, there's no way we can be sure that Mexican plants are not processing milk components from non-NAFTA countries into dairy products which are allowed entry into the U.S. market as Mexican origin products. (This is similar to last year's Goya cheese fiasco, when we learned that Goya cheese from Poland, Uruguay and other countries would be allowed in under Hungary's GSP petition.) How can we be absolutely sure that New Zealand milk powder is not reconstituted into milk and made into Mexican cheese for export to the U.S.? What if Mexico imports Parmesan cheese, grates it and mixes it with other cheeses or tomato paste. Does the Parmesan cheese then qualify as Mexican-origin product? Given the potentially huge profits involved for the multinational corporations eager to do business under NAFTA, we have every reason to believe that these violations will occur.

### Canada's Dairy Market is Excluded

Our members wonder why Canada was excluded from the dairy provisions of a supposedly trilateral agreement. Given our location, Midwest producers had viewed access to the Canadian dairy market as perhaps the single redeeming feature of NAFTA. This lopsided agreement allows Canada to protect its dairy producers under GATT Article XI provisions while we lose Section 22. Canadian dairy producers get to keep their current \$22 milk prices while U.S. producers will scramble to retain even \$10.10 under tariffication.

### Harmonize Sanitary Standards at the U.S. Level

NAFTA perpetuates the unfortunate double standard on food safety which holds U.S. producers to a high set of standards and imports to a much lower standard. American dairy farms and plants are subject to increasingly strict and costly regulations regarding bacteria count, somatic cell count and drug residues in both raw milk and finished product. NAFTA does not require that Mexican dairy exports to meet those stiff requirements. It further ignores domestic food safety concerns by using the unacceptably low *Codex Alimentarius* standards as the model for harmonization. This double standard puts U.S. producers at an economic disadvantage to foreign competitors who do not have to meet the high cost of compliance with our domestic standards. It also poses a public health risk as consumers are exposed to levels of contamination in dairy imports which are deemed unacceptable for domestic dairy products.

USDA's Foreign Agriculture Service admitted in a May, 1992 report, *Effects of a Free Trade Agreement on U.S. and Mexican Sanitary and Phytosanitary Regulations*, that it will be difficult to harmonize the widely different standards between the two countries. Mexico uses pesticides such as DDT which have long been banned in the U.S. The FAS report notes that "most violations on imported produce are from pesticides for which the United States has not established a tolerance level. Reasons for not establishing a tolerance level include that the pesticide is not used in the United States because of different pest problems, crops or climate or because the EPA has denied the pesticides a U.S. registration."

Mexican dairy products would not be required to meet our standards for animal drug residues or Bovine Growth Hormone. Again, this raises serious competitive and public health concerns for U.S. industry and consumers.

#### Mexican Dairy Market Potential is Overstated

We again call your attention to the study by Professor Milton Hallberg at Pennsylvania State University, which stated that Mexico may not provide the export opportunities which the proponents are claiming. The study cited Mexican cultural preferences and economic barriers which limit demand for U.S. cheddar cheese and butter. It also noted that lower-cost competitors such as New Zealand are likely to capture the Mexican market for powdered milk and butteroil under NAFTA. This is especially true, given the loopholes for chocolate crumb and other exempted products.

#### The Threat of Bovine Tuberculosis

U.S. dairy and beef herds face an increased risk of bovine tuberculosis from cattle imports from Mexico. The threat of this disease, which is communicable to humans, will increase under NAFTA. We were disturbed to learn of this growing threat earlier this year from a report in the *Des Moines Register*. A new study released this week by the Institute for Agriculture and Trade Policy in Minneapolis takes a much closer look at the problem. We would like to have this study entered into the record. According to the study, "Dr. Mitchell Eisey of the USDA's Animal and Plant Health Inspection Services said that perhaps 50% of Mexican dairy cattle and about 1% of beef cattle carry the TB bacteria in the herds of the northern tier of Mexican states from which cattle are imported for U.S. feedlots." While just 0.015% of the U.S. cattle herd which tested positive in fiscal year 1990, APHIS officials have found a significant increase in U.S. herd over the past two years, mostly due to Mexican cattle imports, the study said.

I want to quote several other key points from this study:

"Bovine tuberculosis (TB) is a serious problem in Mexican feeder cattle herds and poses a large health risk to U.S. meat industry workers, inspection officials and consumers — and a larger health risk under a North American Free Trade Agreement.

"Mexican cattle producers claim that new U.S. Animal Health Association sanitary rules aimed at reducing bovine TB in Mexican exports of beef are a threat to their \$500 billion industry. In response, the Mexican government may

stiffen the rules for U.S. cattle and sheep exports to Mexico; and

"Regulatory attempts by the U.S. to restrict entry of Mexican beef exports because of its potential health risk may be challenged by the Mexican cattle industry as a barrier to trade."

We are disturbed that NAFTA will increase the risk of bovine TB being spread from infected Mexican cattle imports to U.S. beef and dairy cattle herds, and to our citizens. A new agreement should provide for adequate safeguards against this serious threat.

While contaminated imports have always posed food safety problems, the threat has been limited by Section 22 import quotas. NAFTA greatly increases the public health risk by eliminating Section 22.

#### **Beef Up U.S. Import Inspections**

Border inspections by the Food and Drug Administration are currently inadequate to intercept much of the contaminated food imports coming into the country. NAFTA will make a bad situation even worse as the volume of food imports rises.

This is especially true in light of problems such as the recent report that Bangladesh customs has rejected a big shipment of radioactive milk powder from Lithuania because it contained five times their allowable level of radiation. The Dutch traders who exported this radioactive milk powder are presumably looking for someplace else to unload it. If NAFTA goes through, this radioactive milk powder could be processed into an exempt product like chocolate crumb and enter via Mexico. Last we heard, FDA had only one laboratory capable of monitoring radiation. We warned FDA Commissioner David Kessler earlier this month that his agency's imported food inspection program must be completely overhauled to keep contaminated dairy imports like this radioactive milk powder from slipping through the huge cracks in our system, especially under NAFTA.

A July 1989 staff report by a subcommittee of the House Committee on Energy and Commerce, titled *Hard to Swallow: FDA Enforcement Program for Imported Food*, describes the problem at the U.S. border port of Nogales, Arizona. The report notes that both FDA and USDA daily monitor some 600 fruit and vegetable shipments from Mexico. USDA has 82 inspectors and 12 office support staff on duty 24 hours a day, seven days a week inspecting every load for a wide range of problems. The FDA has only one and a half full-time inspectors on duty only 8 hours a day, excluding weekends and holidays, who inspect only about 4% of the shipments for pesticides only.

In summary, this NAFTA is wrong for American dairy farmers. This agreement should be rejected and replaced with a new agreement that preserves Section 22, has adequate rules of origin applying to all dairy products, requires Mexico to meet our sanitary standards, and provides for adequate inspection of beef and dairy imports. Then we can support NAFTA. Thank you for this opportunity to testify.

(Attachment follows:)

## NAFTA, Bovine TB, and U.S. Importation of Mexican Feeder Cattle

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### *Introduction*

In order for "free" trade to work in the U.S.-Mexican cattle industry, Mexican feeder cattle (200-699 lb. calves) must be imported by U.S. feedlots free of disease.<sup>1</sup> To judge by the recent response of the Mexican government to sanitary measures proposed by the U.S. Animal Health Association (USAHA) for Mexican feeder cattle, it will not be a simple task to make the profit objectives of the cattle industry compatible with USAHA's disease-free animal health standards. The USAHA recently proposed new sanitary rules on Mexican cattle exports that Mexican officials believe would undermine Mexico's \$500 billion beef export industry.<sup>2</sup> Gustavo A. Reta, Undersecretary for Livestock at the Agricultural and Water Resources Secretariat (SARH) suggested that Mexican ranchers might react to these rules by pressuring the Mexican government to institute tougher tests on U.S. cattle exports to Mexico, and on U.S. sheep exports, a combined \$200 million industry.<sup>3</sup> Under the contradictory provisions of the North American Free Trade Agreement (NAFTA), Mexico could challenge U.S. phyto-sanitary rules and regulatory enforcement as a trade barrier and demand that they be weakened or abrogated. As is outlined below, Mexican cattle producers could claim that bovine tuberculosis (TB) eradication in Mexican cattle is not, in the language of the NAFTA subchapter on sanitary and phyto-sanitary provisions, "economically feasible" even at the "appropriate level" of

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<sup>1</sup> For an excellent analysis of the Mexican cattle industry, see Steven E. Sanderson, *The Transformation of Mexican Agriculture: International Structure and the Politics of Rural Change* (Princeton, NJ: Princeton UP, 1986), 119-181.

<sup>2</sup> Dianne Solis, "Agricultural Crisis in Mexico Deepens As More Farmers Face Loan Delinquency", *Wall Street Journal* (Sept. 13, 1993), A12.

<sup>3</sup> John Rice, "SARH Officials React to New U.S. Threat to Mexican Cattle Imports" *Mexico City News* (Sept. 13, 1993).

consumer protection that would be determined by a trade dispute resolution panel.

Part of the proposed USAHA rules concern bovine TB surveillance, detection and eradication programs. Whereas 5% of U.S. cattle tested positive for bovine TB in 1918, and 0.015% (one of 6,800 animals) tested positive in fiscal year 1990<sup>4</sup>, Dr. Mitchell Essey of the USDA's Animal and Plant Health Inspection Service (APHIS) said that perhaps 50% of Mexican dairy cattle and about 1% of beef cattle carry the TB bacteria in the herds of the northern tier of Mexican states from which cattle are imported for U.S. feedlots. The higher detected incidence of bovine TB in dairy cattle is due in part to the fact that steers are generally slaughtered at the age of 18 months to two years, whereas dairy cattle live longer and hence bovine TB symptomology is more apparent. Dr. Essey believes that bovine TB can be controlled in the northern Mexican states. The extent of bovine TB in southern Mexican states is assumed to be higher than in the north, although little TB testing has been done in the south.<sup>5</sup>

According to APHIS veterinarians, there has been a significant increase in bovine TB in U.S. herds during the last two years, and the origin of most of that bovine TB is the Mexican feeder cattle imported by U.S. feedlots:

"[a]pproximately 68 percent of all tuberculosis cases detected on slaughter inspection of feedlot cattle from 1982-1991 traced to Mexico. In FY 1992 436 (83 percent) of the 523 feedlot cases investigated traced to Mexico."<sup>6</sup> Confirmed cases of bovine TB "averaged 0.6 per 100,000 cattle slaughtered for FY 1985 through FY 1991, while in the first half of FY 1992 the confirmed case

<sup>4</sup> "Overview of the Assessment of Risk Factors for *Mycobacterium bovis* in the United States", *Animal Health Insight*, 10.

<sup>5</sup> Dr. Mitchell Essey, phone interview, on Sept. 30, 1993.

<sup>6</sup> Mitchell A. Essey, D.V.M. and Robert M. Meyer, D.V.M., "Status of the State-Federal Bovine Tuberculosis Eradication Program: Fiscal Year 1992", *Proceedings: Ninety-Sixth Annual Meeting of the United States Animal Health Association*, 531-532.

rate was 2.0 per 100,000.<sup>7</sup> "Although the percentage of TB-contaminated cattle in the United States is still small, the sharp rise in the disease -- especially in Colorado and the Southwest, where many high-risk Mexican cattle are imported -- "scares the heck out of a lot of us" said John A. Hennessy, acting state veterinarian in Missouri.<sup>8</sup> Despite the tracing of bovine TB in U.S. herds to steers of Mexican origin, a recent APHIS study concludes "Mexican cattle infected with *M. bovis* are entering the U.S., but there is no evidence to date that they play a substantial role in transmitting *M. bovis* to domestic cattle."<sup>9</sup> However, a report on bovine TB in Texas concludes that "there is some concern regarding the potential for exposure of domestic breeding cattle [to bovine TB from Mexican cattle]. The extent of that risk is not presently quantifiable."<sup>10</sup> Dr. Mark Schoenbaum, Central Region Epidemiological Officer with APHIS, said that although he believes that the incidence of contamination of domestic herds by cattle of Mexican origin is small, that testing for bovine TB is difficult, and TB tests are by no means perfect.<sup>11</sup>

Mexican feeder cattle imports have increased greatly during the past decade and are very likely to do so in the future. According to the U.S.D.A., in 1991, over one million Mexican feeder cattle were imported into the United States (over 70% of them into Texas feed lots), which amounted to 3.4% of total U.S.-

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<sup>7</sup> "Overview of the Assessment of Risk Factors for *Mycobacterium bovis* in the United States", *Animal Health Insight*, 13. This is condensed from *Assessment of Risk Factors for Mycobacterium bovis in the United States*.

<sup>8</sup> Mike McGraw, "Evidence grows at packinghouses of resurgence of TB in cattle herds", *The Kansas City Star* (April 30, 1993).

<sup>9</sup> "Overview of the Assessment of Risk Factors for *Mycobacterium bovis* in the United States", 10.

<sup>10</sup> "Bovine Tuberculosis in Texas", Zoonosis Control Division, Bureau of Veterinary Health (June 28, 1993), 3.

<sup>11</sup> Phone interview, Dr. Mark Schoenbaum (Sept. 29, 1993).

beef production.<sup>12</sup> These cattle imports were valued at \$361 million.<sup>13</sup> In 1988, 844,000 Mexican feeder cattle were imported at a value of \$262 million.<sup>14</sup> Since 1982, the number of Mexican feeder cattle imports has quadrupled.<sup>15</sup> These feeder cattle imports are 'fed out' before marketing for slaughter by a livestock and beef industry that is quite concentrated and centralized. "In 1990, for example, 205 feedlots with capacities of 16,000 head or more accounted for more than half of production (52 percent); 44,000 smaller feedlots supplied the remainder. Ninety-one plants [in 1990] accounted for more than 90 percent of all U.S. beef packing in an industry with more than 1,000 packing plants."<sup>16</sup> Furthermore, "three companies -- IBP, Cargill and ConAgra --- now slaughter nearly 80% of all U.S. meat."<sup>17</sup> Given the increase in bovine TB, largely originating in Mexican feeder cattle, and the likely future increase in Mexican feeder cattle exports, bovine TB eradication has become a politically sensitive trade issue, as well as an animal health and consumer issue.

Congressional testimony by William H. Wynn, International president of the United Food and Commercial Workers International Union (UFCW) argues that several articles in NAFTA would enable a major increase in feeder cattle and meat exportation into the United States. Wynn testified that "The high cost of feed grain has been a major barrier to the expansion and development of a modern livestock sector in Mexico. The major contribution of NAFTA in changing

<sup>12</sup> Cited in "The Impact of the North American Free Trade Agreement on the U.S. Livestock and Meat Sectors," United Food and Commercial Workers International Union Before the International Trade Commission on November 24, 1992, 19.

<sup>13</sup> *U.S. -Mexico Trade: Pulling Together or Pulling Apart?*, Office of Technology Assessment, Congress of the United States (Washington, D.C.: U.S. Government Printing Office, October, 1992), 199.

<sup>14</sup> *NAFTA: Effects on Agriculture*, An American Farm Bureau Research Foundation Report (1991), vol. 1, 76.

<sup>15</sup> "Overview of the Assessment of Risk Factors for *Mycobacterium bovis* in the United States" *Animal Health Insight* (Summer, 1993), 11.

<sup>16</sup> *U.S. -Mexico Trade: Pulling Together or Pulling Apart?*, 210.

<sup>17</sup> Statement of A.V. Krebs, PrairieFire Rural Action to the USDA Public Hearing, Food Safety, Des Moines, Iowa, June 4, 1993, 2.

the economics of the livestock and meat trade is the elimination of current Mexican quotas and tariffs on imports of feed grains from the United States . . . Once Mexico frees up the import of grain, it will make sense to raise livestock and slaughter it in Mexico for export to the United States".<sup>18</sup> Whether or not transnational corporations expand the feed, livestock and beef industries to the degree suggested by Wynn's testimony may be in part conditioned by the eradication of bovine TB.

*Risk of Bovine TB for Humans and USDA Inspection Problems*

Veterinarians and epidemiologists consulted for this report generally agree that the risk of bovine TB transferring to humans is slight. Yet the difficulty of distinguishing bovine TB bacilli from human TB bacilli in the laboratory, plus a memo from one Food Safety and Inspection Service (FSIS) administrator concerning TB testing for inspectors handling carcasses suggests that the acquisition of TB through beef consumption cannot be dismissed. Furthermore, the accusation of an FSIS inspector that he was ordered to release a carcass with TB lesions for human consumption does not allow the public to be entirely sanguine about relying on the USDA to prevent the acquisition of TB from meat.

Dr. Terry Beals, Executive Director of the Texas Animal Health Commission stated that "Today it would be extremely rare for a human to get cattle tuberculosis."<sup>19</sup> Dr. Morse Potter, a veterinarian with the Centers for Disease Control and Prevention said that the clinical difference between *M bovis* and the human TB bacteria is so slight that diagnostic laboratories do not attempt to determine the strain of TB. Dr. Potter added that although the data on bovine

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<sup>18</sup> William W. Wynn, Statement before the International Trade Subcommittee, Committee on Ways and Means, U.S. House of Representatives on North American Free Trade Agreement, (March 11, 1993), 6.

<sup>19</sup> "Cattle Herd in Karnes County Cause Concern; Tuberculosis Infection Possible", Texas Animal Health Commission News Release (May 21, 1993).



to human TB transmission are imperfect, "there is no evidence that *M bovis* is an important portion of human TB".<sup>20</sup> This assurance notwithstanding, Dr. R.C. Nelson, an Assistant Area Supervisor of FSIS requested TB testing for FSIS employees from Dr. Mark Minis, Regional FSIS Director, on June 6, 1992. Nelson wrote "[b]ecause of the high incidence of [bovine] Tuberculosis and because of the exposure our employees have with these positive animals, we recommend TB testing for FSIS employees who are in contact with these animals."

The recent experience of Dr. Wilfredo Rosario, a whistleblowing U.S. federal veterinarian, attests that part of the difficulty in protecting the public from foodborne TB is assuring that FSIS inspection practices carry out FSIS official policy. "Dr. Rosario was ordered by FSIS management to release the carcass he diagnosed in October 1989 as having TB lesions."<sup>21</sup> Dr. Rosario, with the aid of the Government Accountability Project (GAP) and attorney Ken Morrison, has struggled since then both to change the policy of giving USDA's stamp approval to TB lesioned meat and to determine at what bureaucratic level of the USDA such a policy originated.

USDA policy no longer allows, as it did in 1990, that "beef carcasses found to be "suggestive" of tuberculosis . . . be released for human food".<sup>22</sup> Although Secretary of Agriculture Edward Madigan wrote on January 19, 1993 that his predecessor, Clayton Yeutter, had erred in defending the policy of releasing such carcasses for human consumption, Madigan's own distortions concerning TB dispositions standards required a detailed response from attorney Morrison to the U.S. Office of Special Counsel. According to Morrison, in April 1993, Secretary

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<sup>20</sup> Phone interview with Dr. Morris Potter, on August 31, 1993.

<sup>21</sup> Ken Morrison, "The October Carcass", *The Los Angeles Reader* (October 9, 1992), 9.

<sup>22</sup> George Anthan, "Bovine TB still a public health concern", *The Des Moines Register*, March 8, 1993, 3A.

Madigan's letter "led directly to the OSC's highly unusual decision to order a new, full-blown investigation into the USDA TB-disposition policies".<sup>23</sup> The investigation, ordered by Robert L'Heureux, Associate Special Counsel for Investigation of OSC, is still underway.<sup>24</sup> Morrison wrote in a June, 1993 article that "[o]nly after the [*Los Angeles Reader*] article ["The October Carcass", also authored by Morrison in October, 1992] was published – fully two years after the Special Counsel first ordered Yeutter to investigate – did the USDA really begin investigating."<sup>25</sup> Morrison hopes that the results of this investigation will determine, among other matters, "how many TB carcasses, in what parts of the country, have actually been illegally released over the years".<sup>26</sup>

The increase in the detection of bovine TB and the likelihood of greater future increases with increased Mexican feeder cattle exports pose serious inspection problems for government officials in Mexico, at the U.S.-Mexican border, in feedlots and in processing plants. Despite the generally very good health of American cattle herds, the threat posed by bovine TB to human health, particularly to animal inspectors, feedlot employees and meat packing employees cannot be dismissed as negligible.

#### *Prospects for Bovine TB Eradication in Mexican Cattle*

According to Dr. Bob Hillman, a member of the Joint Mexican-U.S. Committee on Bovine TB Eradication, it will be "many, many years" before Mexican bovine TB eradication programs can be certified as equivalent to U.S. Programs.<sup>27</sup> Concerning the recent increase in bovine TB in U.S. herds, Dr.

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<sup>23</sup> Letter from Kenneth S. Morrison, August, 18, 1993.

<sup>24</sup> Letter from Robert L'Heureux to Dr. Wilfredo Rosario re OSC File No. DI-93-1119, April 16, 1993

<sup>25</sup> Morrison, "USDA Finally Gets the Message About TB-Infected Carcasses", *The Los Angeles Reader* vol. 15: 34 (June 4, 1993)

<sup>26</sup> Morrison, "USDA Finally Gets the Message About TB-Infected Carcasses".

<sup>27</sup> Dr. Bob Hillman, phone interview on August 13, 1993.

Hillman stated "[t]he Mexican free-trade agreement is a very big consideration . . . It is vital that trade agreements and procedures for [Mexican cattle] entry be based on sound scientific data, not on someone's economic policy, not on a whim and not because someone can make some money doing this."<sup>28</sup>

Although Dr. Essey believes that bovine TB can be controlled eventually in the northern Mexican states bordering the U.S. from which most cattle are exported, he said that the time it will take to eradicate the disease "depends very much upon dollars."<sup>29</sup> In the United States "[p]roblems persist in dealing with the disease in known infected herds because little or no compensation is available for animals destroyed because of tuberculosis".<sup>30</sup> Dr. Essey explained that in addition to the problem of acquiring indemnification funds, there are two other factors that complicate the eradication program. First, the size of herds, particularly dairy herds, has increased, so that herds with thousands of cattle require indemnification payments in millions of dollars. Second, even if funds are available, cattle owners may choose not to depopulate their herds because, on average, the indemnification payment is about \$350 less per head of cattle than the value of the cattle for breeding. Cattle owners tend to depopulate their herds when the number of TB positive cattle in a herd is high enough so that probable future rates of infection can be confidently extrapolated. The symptomology of bovine TB is such that a badly diseased herd can have good looking cattle. Fortunately, Dr. Essey, concluded the incidence of bovine TB in large herds has been very low.<sup>31</sup>

Dr. Billy Johnson, Co-chair of the Joint Committee, stated that APHIS would provide only technical assistance to help eradicate bovine TB in Mexico

<sup>28</sup> Hillman cited in McGraw, "Evidence grows at packinghouses of resurgence of TB in cattle herds".

<sup>29</sup> Dr. Mitchell Essey, phone interview, on Sept. 13, 1993.

<sup>30</sup> Essey and Meyer, "Status of the State-Federal Bovine Tuberculosis Eradication Program: Fiscal Year 1992", 529.

<sup>31</sup> Dr. Mitchell Essey, phone interview, on Sept. 30, 1993.

and would provide no funds for indemnifying owners of TB positive cattle destroyed in the eradication program.<sup>32</sup> A March 4, 1993 memo concerning USAHA Resolutions on bovine TB eradication in Mexico states, "[l]egal advise [*sic*] would have to be obtained to determine if reactor animals found on retest [to be TB positive] at designated holding areas could be required to be slaughtered without payment of indemnity".<sup>33</sup> What will become of the bovine TB eradication program if Mexican law does not require slaughter without indemnification payment?

According to Dr. Essey, no bovine T.B. eradication plan has ever been successful that did not provide for funds to indemnify cattle herd owners.<sup>34</sup> For example, in order to eradicate a bovine TB outbreak in North Dakota in 1988, \$1.5. million was paid out for the destruction of 4,500 cattle.<sup>35</sup> Dr. Jorge Saltijaral, of the Dept. of Agriculture and Animal Production in the Universidad Autónoma Metropolitana in Mexico City, said that there are no such indemnity funds in the Mexican Bovine TB Eradication Campaign.<sup>36</sup> The national cattle owners association of Mexico (Conferación Ganadera Nacional) will fund the Mexican eradication campaign with \$70 million.<sup>37</sup> Dr. Max Coates, of the Texas Animal Health Commission, said that that about 85% of bovine TB eradication costs in Mexican herds would be paid for by Mexican cattle producers.<sup>38</sup> Although the State of Chihuahua, on the Texas border, plans to eradicate bovine

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<sup>32</sup> Phone interview with Dr. Billy Johnson, on Sept. 14, 1993.

<sup>33</sup> Memo from Robert B. Mellan, U.S. Animal Health Association Administrator, to the Assistant Secretary of Agriculture (Dec. 12, 1992), 3.

<sup>34</sup> Dr. Mitch Essey, phone interview, Sept. 13, 1993.

<sup>35</sup> Phone interview with Dr. Bill Rotenberger, Assistant State Veterinarian of North Dakota, Sept. 14, 1993

<sup>36</sup> Dr. Jorge Saltijaral, phone interview, Sept. 13, 1993.

<sup>37</sup> Dr. Mitch Essey, phone interview, Sept. 13, 1993.

<sup>38</sup> Dr. Max Coates, phone interview, Sept. 27, 1993.

TB "in six years or less"<sup>39</sup>, Dr. Saltijeral said that he and other Mexican specialists in bovine TB doubt very much that this goal can be met.

The response of the cattle industry to the outbreak of bovine-TB, as will be outlined in this article, has sought to protect NAFTA and the industry's health through joint U.S.-Mexico agreements on animal health, which, at this point, are largely statements of principle to control bovine TB. These agreements, however well-intentioned, are years away from becoming the animal health regulation and enforcement programs that could guarantee the health of cattle imported from Mexico, and, hence, food safety for American consumers. Passage of NAFTA in its present form could allow such industry initiated agreements to act as substitutes for federally staffed and funded animal health inspection programs, particularly on the Mexican side of the border.

#### *NAFTA and Food Safety*

The text of NAFTA offers ambivalent assurance of stringent animal health and food safety regulation, enforcement and sanctions. NAFTA articles in "Subchapter B -- Sanitary and Phytosanitary Measures", though seemingly clear when read individually, are so contradictory as a whole as to create the sort of loopholes that would likely result in a stoppage of trade while corporate lawyers, and trade representatives from the U.S. and/or Mexico and/or Canada, present their respective cases in the NAFTA trade dispute resolution tribunal. For example, consider Article 754.1: "Each Party may, in accordance with this Subchapter, adopt, maintain or apply any sanitary or phytosanitary measure necessary for the protection of human, animal or plant life or health in its territory, including a measure more stringent than an international standard, guideline or

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<sup>39</sup> "Eradication Program for Bovine Tuberculosis in the State of Chihuahua, Mexico" Secretaria de Agricultura y Recursos Hidraulicos (January, 1993) 3.2.4.

recommendation." Or Each Party may not adopt etc. In any event, Each Party is not required to adopt such measures, since they might conflict with the language of other articles in the Subchapter, e.g. Article 754.5: "Each Party shall ensure that any sanitary or phytosanitary measure that it adopts, maintains or applies is applied on to the extent necessary to achieve its appropriate level of protection, taking into account technical and economic feasibility." In a trade dispute, the determination of what is an "appropriate level of protection" for citizens and what is technically and economically feasible for producers, processors and distributors will be argued by the trade representatives. State and local governments, to say nothing of non-governmental citizen groups, will have no legal standing to represent their own cases before the NAFTA dispute resolution tribunal.<sup>40</sup>

Just as NAFTA was negotiated with public comment restricted almost entirely to that of large corporations,<sup>41</sup> so too may remain hidden from public view the information upon which are based judgements concerning an "appropriate level of protection" and the technical and economic feasibility of sanitary measures. Article 763b provides that "Nothing in this Subchapter shall be construed as requiring a Party to: furnish any information the disclosure of which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises." It hardly needs to be mentioned that sometimes the needs of law enforcement, public interest and commercial interests are not identical. If the absence of public interest groups from the drafters of NAFTA are any indication of the kind of representation the public may expect from the U.S. Trade Representative, it

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<sup>40</sup> Kale Tamaro, "Will NAFTA Attack the Constitutional Powers of States?" Center for Policy Alternatives (Washington, D.C.), March, 1993.

<sup>41</sup> Lori Wallach and Tom Hilliard, "The Consumer and Environmental Case Against Fast Track", Public Citizen's Congress Watch, May 1991.

would not be illogical to expect that in cases where commercial interests and public interests conflict, commercial interests will likely prevail.

Neither have the so-called side agreements to NAFTA satisfied concerns of agricultural organizations opposing NAFTA. A news release from the National Farmers Union (NFU) states, "Earlier this year, NFU and eight other agricultural organizations submitted a letter to U.S. Trade Representative Mickey Kantor, imploring him to strengthen NAFTA provisions concerning agriculture. The letter outlines 12 specific areas of concern including the need to incorporate country of origin labeling, stronger border inspection systems and inclusion of price transparency language." Nancy Danielson, legislative representative for the NFU said that "[w]e have enumerated these shortcomings on numerous occasions and been told that our concerns would be addressed in a surge agreement, which would serve as agriculture's side agreement. The surge provision is not a side agreement at all, but is a repeat of the original vague language."<sup>42</sup>

Rather than continue the melancholy sport of finding loopholes in the NAFTA text or outlining objections to NAFTA's general agricultural policy, the remainder of this article outlines cattle industry initiatives taken in consort with the USAHA and Mexican government.

#### *NAFTA and the Cattle Industry Response to Bovine TB*

The National Cattleman's Association (NCA), a NAFTA supporter, professes to "have some concerns with animal health and environmental and food safety standards" regarding NAFTA.<sup>43</sup> However, in May, 1993, six months after President George Bush had signed NAFTA, NCA had yet to investigate the impact of the projected increase in feeder cattle exports from Mexico with

<sup>42</sup> National Farmers Union News Release, August 13, 1993.

<sup>43</sup> Amy Jo Brandel, "Beef industry pondering NAFTA's impact", *Agri News* (May 6, 1993), A1.

NAFTA on animal health inspection systems in the U.S. and Mexico. Neither, stated NCA government affairs vice president Tom Cook, had the organization examined the differences on beef production practices between the two countries, particularly concerning the animal drugs and growth enhancers used in Mexico, but banned in the U.S.<sup>44</sup> At a July 27, 1993 press conference that announced the formation of AG for NAFTA, a coalition of 101 agribusiness companies<sup>45</sup>, NCA's Roger Stuber declared that NAFTA "will not change United States animal health safety standards for Mexican cattle . . . and in fact may improve Mexican standards."<sup>46</sup> Stuber's declaration is presumably based on work initiated in 1992 to confront the rise in bovine TB.

At the mid-year meeting of the NCA in 1992, a resolution was adopted to request that the USDA recognize the Arizona-Sonora Animal Health Agreement between the states of Arizona and Sonora, Mexico, and "promote this agreement as a model for other states, and an expanded national program."<sup>47</sup> This half-page agreement, signed by the governors of Arizona and Sonora on June 13, 1992 was the result of negotiations between the states and the cattle industries of the two countries in response to "the possibility of increased import restrictions resulting from a nationwide concern about the incidence of bovine tuberculosis in imported Mexican steers . . . Such restrictions could also have a negative impact on the Free Trade Agreement being developed between the United States and Mexico."<sup>48</sup> Of the agreement, the *Arizona Republic* stated in a June 16, 1992 editorial that "Arizona is riding point on NAFTA, the proposed North American

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<sup>44</sup> Brandel, "Beef industry pondering NAFTA's impact", A2.

<sup>45</sup> "Food, agriculture coalition begins campaign for NAFTA", *Milling and Baking News* (August 3, 1993), 1, 12-13.

<sup>46</sup> *Food Chemical News* (August 2, 1993), 52.

<sup>47</sup> Report of the Arizona-Sonora International Livestock Health Committee (undated), 1.

<sup>48</sup> Report of the Arizona-Sonora International Livestock Health Committee (undated), 1.



Free Trade Agreement, positioning itself well out front in the U.S. drive to open up commerce with Mexico."

One of the purposes of the agreement is to "assure Arizona's livestock industry an uninterrupted supply of cattle from Sonora which in turn insures a ready supply of stocker cattle for our cattle feeding industry."<sup>49</sup> Although these industry concerns gave rise to the June agreement, only in late September 1992 did the Arizona-Sonora Livestock Health Committee actually visit a Sonoran cattle and dairy ranch. The Committee reported that "various industry representatives were impressed with the progress made by Arizona and Sonora through the Arizona-Mexico Animal Health agreement . . . This effort by Sonora could well be the protocol adopted by other Mexican states and the Mexican Department of Agriculture for a national program of the eradication of bovine tuberculosis and brucellosis in Mexico."<sup>50</sup> Although USAHA Resolution 15 has the "ultimate goal of achieving complete eradication of Bovine TB from both countries", Dr. Billy Johnson, Co-Chair of the Mexican-American Joint Committee on Bovine TB Eradication, said that the immediate goal was to provide sufficient TB negative herds from Mexico for export to the United States. He said that about 60% of herds had been tested for TB in Sonora, the state with the most advanced detection programs in Mexico.<sup>51</sup> A June, 1993 report from the Committee for TB Eradication in Sonora states that "[t]ests have been done to 4,847 herds of beef cattle, detecting 0.35% positive herds; on dairies 81 herds have been tested, finding 25% of them positive."<sup>52</sup>

The Arizona-Sonora Livestock Health Committee prepared its resolutions for the United States Animal Health Association (USAHA) meeting of Oct. 31-

<sup>49</sup> Report of the Arizona-Sonora International Livestock Health Committee (undated), 1.

<sup>50</sup> Arizona-Sonora Livestock Health Committee Report, September 28, 29, 30, 1992; Hermosillo, Sonora, Mexico

<sup>51</sup> Phone interview with Dr. Billy Johnson, Sept. 14, 1993.

<sup>52</sup> Salvador Campa, "Report of the Committee of the Campaign for the Eradication of Bovine Tuberculosis and Brucellosis from the State of Sonora" (June 25, 1993), 1.

Nov. 6 under considerable time pressure. It seems that a three-day visit in late September 1992 to one dairy and one cattle operation in Sonora, plus an earlier inspection of a Mexico City laboratory that produces tuberculin for TB testing, together with earlier work by an *ad hoc* USAHA committee, was sufficient to convince the Arizona-Sonora Livestock Health Committee to recommend at the USAHA meeting that import restrictions on Mexican feeder cattle exempt those cattle "originating from Mexican states that have agreements following the guidelines of the Arizona-Sonoran agreement."<sup>53</sup> It appears that the Committee believes that the intent to "improve the surveillance and detection of livestock diseases which could have an impact on livestock production"<sup>54</sup>, if assented to by another Mexican state, is sufficient to exempt that state's cattle from USDA import restrictions. The Committee's belief in the good intentions of the Mexican cattle producers funding the bovine TB eradication program is given regardless of the animal health inspection infrastructure of a Mexican state and regardless of the incidence of bovine TB in herds that reside in that state or are transhipped through it. In short, the Committee believes that if Mexican officials sign a cattle industry initiated agreement to improve detection of bovine TB and other diseases in one Mexican state, there will be no need for more stringent USDA regulations and enforcement for cattle from other states. Furthermore, as Mexican Undersecretary for Livestock Gustavo Reta implied on September 13th, any attempt to impose such regulations might result in more stringent and perhaps retaliatory restrictions on U.S. beef and sheep exports to Mexico.<sup>55</sup>

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<sup>53</sup> Report of the Arizona-Sonora International Livestock Health Committee (undated), 1. Emphasis in the original document.

<sup>54</sup> Agreement of Cooperation between the State of Arizona and the State of Sonora, June 13, 1992.

<sup>55</sup> John Rice, "SARH Officials React to New U.S. Threat to Mexican Cattle Imports" *Mexico City News* (Sept. 13, 1993).

*Fighting Foodborne Diseases Through Consumer Awareness Measures*

TB bacteria in meat can be killed by cooking it at 160 degrees. However, reliance on "A Quick Consumer Guide to Safe Food Handling" (USDA Home and Garden Bulletin No. 248), programs to encourage consumer awareness of safe food handling and cooking is evidently not a substitute for the years of work that it will take to eradicate bovine TB in Mexican cattle. Food-borne disease, such as the November, 1992 to February, 1993 outbreak of *E-coli* 0157:H7 in undercooked hamburger that resulted in four deaths and more than five hundred laboratory confirmed illnesses<sup>56</sup>, is a grim reminder of the limits of consumer awareness and of inspection procedures. Most Mexican feeder cattle imported into the U.S. are likewise destined to become hamburger. Prof. Steven Sanderson writes that "Mexican frontier beef cattle fit the requirements of the U.S. ground beef market by yielding precisely that tall, rangy, muscular, quick-growing feeder steer which is not produced domestically."<sup>57</sup>

It is a matter of debate whether the *E coli* 0157:H7 tainted hamburger contained Canadian meat, New Zealand meat, or Australian meat transhipped through Canada under the weaker 'streamlined' inspection procedures resultant from the U.S. Canada Free Trade Agreement.<sup>58</sup> A Centers for Disease Control

<sup>56</sup> "Multistate Outbreak of *E. coli* 0157:H7 Infections", *Morbidity and Mortality Weekly Report* Centers for Disease Control and Prevention, Vol. 42:14 (April 16, 1993), 258-263.

<sup>57</sup> Sanderson, *The Transformation of Mexican Agriculture*, 171.

<sup>58</sup> FSIS Import Meat Inspector William Lehman declared in sworn testimony that "the USDA and the Centers for Disease Control and Prevention have determined that it was a batch of Australian beef that was blended with U.S. ground beef which ultimately became the hamburgers sold by Jack-in-the-Box. I don't know the origin of that particular lot of Australian meat, but I do know that because of loopholes in the U.S. Canadian boarder-inspection procedures, Australian meat routed to the U.S. through Canada is able to circumvent the more stringent inspections that would be required were the Australian meat imported directly into the United States. Pursuant to the implementing procedures of the U.S. - Canada Free Trade Agreement, USDA inspectors are directed to visually inspect only a small percentage of meat imported from Canada to the U.S. Indeed, as an Import Inspector I have been ordered not to visually inspect Australian meat imported to the U.S. through Canada." Testimony before the Subcommittee on Commerce, Consumer Protection and Competitiveness, Committee on Energy and Commerce, U.S. House of Representatives on Food Safety as It Related to the North American Free Trade Agreement, February 18, 1993, 3-4. A Center for Disease Control and Prevention report on the *E coli* 0157, in an apparent refutation of Lehman's testimony states that "Lot 4 produced 12/28/92 did not have an Australian supplier for frozen meat; the frozen meat

and Prevention report to trace the origin of the hamburger contamination concludes, "[t]he limited recovery of suspect lots from these dates [Nov. 19-20, 1992] suggests that a large quantity of the implicated meat was consumed, particularly in restaurants supplied by the California distribution centers."<sup>59</sup> Fortunately, adequate cooking of unrecovered lots of suspect contaminated meat prevented further poisonings and perhaps deaths.

Unfortunately, the USDA sometimes seems more inclined to rely on consumer awareness, rather than on meat inspection enforcement to protect consumers: "The federal government hasn't given inspectors the authority to confiscate raw meat tainted with *E coli* or other bacteria because it expects consumers to cook meat thoroughly and destroy the bacteria in the process said Patricia Stoufka, associate deputy administrator for science and technology at the Food Safety and Inspection Service (FSIS) in Washington, D.C."<sup>60</sup> In a USDA press conference to announce safe-handling labels that must appear on all raw meat and poultry products sold in the U.S., "Eugene Branstool, assistant agriculture secretary for marketing and inspection services, describes the labeling rule as the centerpiece of a broad consumer-education campaign. He predicts that food safety will be a focus of the 1990s, in much the same way that auto-safety and environmental awareness were the focus of earlier decades."<sup>61</sup> If the agency would rather make consumers more "aware" of the dangers of *E coli* 0157:h7 contaminated meat than confiscate that meat, the USDA food safety campaign may remain little more than consumer education and public

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was supplied by a New Zealand company." There is no mention of whether the New Zealand beef was transhipped through Canada. That report concludes "The supplier of the contaminated meat has not been determined", probably because of an "inexactness of production records." Jessica Tuttle, CDC memorandum on EPI-AID Trip Report (May 21, 1993), 5, and 10.

<sup>59</sup> Tuttle, CDC memorandum, 11.

<sup>60</sup> Paul McEnroe and Sharon Schmickle, "For Consumers, it's luck of the draw", *Minneapolis Star Tribune* ((August 8, 1993), 14A.

<sup>61</sup> Rose Gutfeld, "Required Labels For Poultry, Meat Unveiled", *Wall Street Journal* (Aug., 12, 1993), B8, column 1.

relations. (The meat industry has already announced that it will be unable to have safe handling labels on all products by the October 15 deadline.<sup>62</sup> The National-American Wholesale Grocers' Association, the National Grocers Association and the Texas Food Industry Association are suing the USDA in U.S. District Court in Austin, TX. The suit contends that "USDA acted illegally by forcing enactment of the label requirement in only 60 days".<sup>63</sup>)

The incidence of food-borne illnesses and deaths is more frequent, widespread and serious than can be appreciated in any one outbreak, even one as notorious as the *E coli* 0157:h7 outbreak. According to the General Accounting Office (GAO), "[r]esearchers at the Centers for Disease Control estimate that there are about 6.5 million cases of food-borne illness and about 9,000 deaths in the United States each year. Most of these cases can be traced to microbial pathogens in meat, poultry, eggs, and seafood."<sup>64</sup> Given the incidence of food-borne illness prior to "free" trade and the difficulties of eradicating just one, analysis of the effects of trade policy and increased trade on U.S. food safety should extend beyond what is permitted by the extremely limited provisions for Congressional debate on NAFTA provided for in the 'fast-track' authorization.

### Conclusion

The increase in bovine TB in U.S. herds, largely originating in Mexican feeder cattle, has instigated a bovine TB eradication program which, in Mexico, appears be insufficiently funded to meet the stated objectives of the eradication

<sup>62</sup> "Gore Plans to Eliminate FSIS", *Cattle Buyers Weekly* (Sept. 6, 1993), 1-2.

<sup>63</sup> Joanna Ramey, "USDA Sued Over Meat Label Date", *Supermarket News* (Sept. 27, 1993), 1.

<sup>64</sup> "Food Safety: Inspection of Domestic and Imported Meat Should Be Risk-Based", Statement of John W. Harman, Director, Food and Agriculture Issues, Resources, Community and Economic Development Division, General Accounting Office in Testimony before the Subcommittee on Commerce, Consumer Protection and Competitiveness, Committee on Energy and Commerce, House of Representatives, February 18, 1993, p4.

program. Because Mexican cattle producers are providing most of the funds for the bovine TB eradication program, the difficulty of eradicating bovine TB with such limited funds, particularly for indemnification, may cause them to claim that APHIS or U.S. state animal health regulations to violate the standards of "economic feasibility" and/ or "appropriate level" of protection for NAFTA.

Although bovine TB appears to be unlikely to be transmitted to meat consumers who like to cook their meat well-done, feedlot and meatpacking workers, as well as inspection personnel may be at some risk in handling raw meat or being infected through splattered blood. For the USDA and the meat industry, the burden of insuring that consumers do not contract TB through infected meat rests finally with the consumer, although many meat retailers believe that most consumers will not read food safety handling labels mandated by the USDA on August 16, 1993.<sup>65</sup>

The international division of cattle and beef producing labor that brings beef to the tables of American consumers has made bovine TB a trade issue, as well as an animal health and consumer issue. The current language of NAFTA's sanitary and phyto-sanitary provisions invites Mexican accusations that USDA regulations and enforcement are "trade barriers". Although the NAFTA trade dispute resolution panel may well resolve the resulting trade wars in favor of U.S.-based transnational corporations, it seems unlikely that bovine TB in cattle of Mexican origin will be eliminated as a threat to meat industry workers, inspection officials, and consumers.

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<sup>65</sup> *Cattle Buyers Weekly* (Sept. 27, 1993), 1.

**TESTIMONY OF**

**JAMES C. BARR  
CHIEF EXECUTIVE OFFICER  
NATIONAL MILK PRODUCERS FEDERATION**

**before the**

**COMMITTEE ON AGRICULTURE  
U.S. HOUSE OF REPRESENTATIVES**

**regarding the**

**NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)**

**October 19, 1993**

Mr. Chairman, I am James C. Barr, Chief Executive Officer of the National Milk Producers Federation. The National Milk Producers Federation is the national farm commodity organization which represents dairy farmers and the dairy cooperative marketing associations they own and operate throughout the United States.

I appreciate this opportunity to testify before the Committee about the North American Free Trade Agreement (NAFTA) recently concluded by negotiators from the U.S., Mexico and Canada.

The National Milk Producers Federation followed the NAFTA negotiations closely and brought numerous issues of concern to the nation's dairy farmers directly to the attention of U.S. negotiators. Your support, Mr. Chairman, and the support of this Committee on our issues and concerns made it possible for some of them, such as the issue of rules of origin, to be successfully addressed in the negotiations.

The National Milk Producers Federation strongly supports the North American Free Trade Agreement. NAFTA will increase net exports of U.S. milk and dairy products and help strengthen U.S. milk prices. The National Milk Producers Federation estimates that, by so doing, NAFTA could put as much as \$1 billion more income into U.S. dairy farmers' pockets.

Various government studies put the direct export sales benefits of NAFTA for the U.S. dairy industry at \$200 million, very conservatively estimated. A recent, widely quoted study from Ohio State University determined that for every \$1 million in dairy product

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The National Milk Producers Federation is a farm commodity organization representing most of the dairy marketing cooperatives serving this nation. NMPF members market a majority of the milk produced in the US, making the Federation an effective voice on national issues for dairy cooperatives and their dairy farmer members.

The Federation provides the forum through which dairy farmers and their cooperatives formulate policy on national issues that affect the production and

marketing of milk. NMPF's contribution to this policy is aimed at improving the economic well-being of dairy farmers, thus assuring this nation's consumers an adequate supply of pure, wholesome milk and dairy products.

The policies of the Federation are determined by its members from across the nation. Therefore, the policy positions expressed by NMPF are the only nationwide expression of dairy farmers and their cooperatives on national public policy.

output, about 48 jobs were created somewhere in the U.S. economy. Together, these studies imply that as many as 10,000 new jobs could be generated due to the positive impact of NAFTA on the U.S. dairy industry.

### **Background**

The U.S. dairy industry historically has focussed almost entirely on the domestic market for sales of its milk and dairy products. However, as the U.S. population ages and population growth slows, the domestic market is maturing, pointing to slower growth in commercial dairy sales. At the same time, productivity gains are growing. The industry must find new markets or face a painful downsizing.

Mexico is the U.S. dairy industry's largest export market. It accounted for almost 30 percent of the total value of all U.S. dairy exports during fiscal year 1991-92 (Japan was second, with about 11 percent). However, the U.S. is only one supplier of Mexico's dairy imports. The U.S. share of Mexican dairy imports ranges from almost 100 percent for products such as ice cream, to near zero percent for dry whole milk. With its rapidly growing, young population and its growing levels of personal income, Mexico represents a rich prize to any country whose dairy industry can increase its share of imports. Mexico is one of the world's largest dairy importing countries, and will likely continue to be for the foreseeable future.

### **NAFTA Dairy Provisions**

Under the NAFTA, the U.S. and Mexico will gain additional access to each other's dairy markets while maintaining their current dairy import controls with respect to all other countries. Mexico would relinquish its current import licensing requirements for U.S. dairy exports and replace them with ordinary tariffs. These tariffs would be phased out mostly over 10 years. All other countries would continue to face Mexico's licensing requirement. The U.S. would phase out its import quotas for dairy imports from Mexico over ten years, but retain those quotas with respect to all other countries.

At the end of ten years, therefore, NAFTA would result essentially in free trade in dairy products between the U.S. and Mexico, as far as tariff and quota restrictions are concerned (Mexico would retain some tariff protection for another five years against U.S. nonfat dry milk exports above 120 million pounds a year).

The NAFTA also includes provisions relating to the sanitary and phytosanitary standards maintained by individual countries. These provisions essentially require the



health-related sanitary and phytosanitary standards maintained with respect to trade between NAFTA countries to 1) be based on scientific evidence, 2) not be applied in an arbitrary or discriminatory manner, 3) be developed based on the principle of risk assessment, and 4) be applied only to the extent necessary to achieve a clearly-understood level of protection. In other words, the NAFTA provisions on standards will protect the right of the U.S. to maintain the level of protection health protection it chooses. It will simply be required to relate its standards to that chosen level of health protection with scientific justification.

The only NAFTA provisions that relate to market access in dairy products are those that will affect bilateral dairy trade between the U.S. and Mexico. Canada did not agree to make any market access concessions in the NAFTA negotiations as far as dairy products are concerned. Therefore, Canadian dairy exports to Mexico and the U.S. will continue to face the same restrictions under the NAFTA that they do now.

This "Canadian exclusion," which resulted from the high level of concern within Canada's politically-powerful dairy industry about opening up freer trade with the lower-price U.S. dairy industry, is quite frankly a disappointing aspect about NAFTA, because U.S. dairy products would be very competitive in the Canadian market. This does not change our opinion that the NAFTA will be beneficial to our industry. It does mean, however, that we will continue to seek means of gaining access to the Canadian dairy industry. If more open trade is the way of the future, then it is imperative that all countries participate.

#### Rules of Origin

An important NAFTA provision involves so-called "rules of origin." These have to do with the transshipment of a product from one country to another by way of a third country. It is important to ensure that other countries will not be able to benefit from the greater access to U.S. markets that Mexico will achieve under the NAFTA by being able to ship dairy components into Mexico and convert them into other products which could then be shipped into the U.S. as Mexican product.

The NAFTA rules of origin would largely prevent this from occurring. These rules would impose what is called a "cow-forward" rule. This means that all of the dairy components in a dairy product must come from Mexican cows in order for that product to be considered of Mexican origin, and thus eligible to enter the U.S. on NAFTA preferential terms. On the other hand, a product such as cheese produced from Mexican raw milk, but fortified with nonfat dry milk from New Zealand, would be considered

to come from that country and thus be subject to the current U.S. import quotas that apply to dairy products from New Zealand.

There are a few exceptions to these rules. And it goes without saying that they must be strictly enforced. Overall, however, the NAFTA rules of origin on dairy products are very tight and should prevent any significant circumvention of U.S. dairy import quotas that will continue to apply to countries other than Mexico, including Canada.

### **Impact of NAFTA on the U.S. Dairy Industry**

Implementation of the NAFTA will give U.S. milk and dairy products certain preferences in the Mexican market. U.S. shares of Mexico's milk and dairy product markets are likely to increase as a result. In 1990, Mexico imported about 635 million pounds of nonfat dry milk and about 60 million pounds of butteroil from all countries.

However, foreign competition, particularly in the form of subsidized exports from the European Community, is intense for these dairy commodities. NAFTA will help, but not by itself guarantee, that the U.S. will gain a greater share of the Mexican markets for these products. However, without NAFTA, other countries will be more likely to maintain, or even increase, their dominance of these key Mexican dairy markets at the expense of the U.S. For more value-added dairy products, the U.S. export outlook for Mexico under NAFTA is very favorable, not only due to the phase-out of import barriers but also due to the higher level of Mexican consumer income that will occur under NAFTA. Higher disposable incomes will result in greater demand for dairy products such as yogurt, ice cream, and cheese in Mexico. The U.S. dairy industry will be the major supplier of such products, including products processed in Mexico from U.S.-supplied raw milk.

On the other hand, Mexico is not likely to import large quantities of dairy products into the U.S. under NAFTA. For one thing, Mexico is not likely to gain Grade A status for its dairy products for some time, which will prevent it from even being able to export fluid milk, yogurt and cottage cheese to the U.S. Also, apart from some soft Mexican specialty cheeses, it doesn't produce cheese varieties in demand in the U.S. Furthermore, NAFTA will not alter the fundamental economics of producing milk in Mexico, which have kept that country a major deficit milk producer. And studies have shown that, on a per-unit of milk basis, Mexican dairy farms do not have a cost of production advantage compared with comparable U.S. dairy farms, despite lower labor costs. Therefore, Mexico is not likely to develop any exportable milk surplus, and is not expected to export any but a few specialty products into the U.S.

The NAFTA is also expected to be beneficial to U.S. dairy farmers through its impact on the U.S. beef industry. The agreement is expected to increase U.S. exports to Mexico of both live cattle as well as beef, strengthening markets and improving prices and incomes for U.S. cattle and meat producers. As producers of approximately half the cows slaughtered for beef in the U.S., dairy farmers would likely receive an extra income boost from NAFTA through its impact on cattle markets and prices.

Additional information on the potential impact of the NAFTA on the U.S. dairy industry can be gained from the following are excerpts from recent governmental studies of the impact of NAFTA:

U.S. Department of Agriculture, Economic Research Service, *Effects of the NAFTA on U.S. Agricultural Commodities*, March, 1933:

Primarily a bulk commodity market prior to 1987, Mexico is now one of the United States' largest and fastest growing high-value markets. Consumer-oriented food products have gained the most with meat and poultry, horticultural products, dairy products, and snack foods among the leaders. ... The U.S. dairy industry is expected to benefit from NAFTA because Mexico's demand for dairy products due to population and income growth is projected to outpace dairy production. Mexican imports of U.S. milk powder are expected to grow by about 20,000 metric tons by the end of the 15-year transition period due to NAFTA. That would be \$36 million in additional dairy export sales. Other dairy product exports will also increase faster than without NAFTA. U.S. exports of other dairy products under NAFTA could increase \$200-\$250 million annually by the end of the transition period.

U.S. Department of Agriculture, *Agriculture in a NAFTA: Analysis of Liberalizing Trade Between the U.S. and Mexico*, July, 1992:

Lowering tariffs under a free trade agreement would reduce the price of imported feed grains and protein feedstuffs, but would also reduce the price of imported dairy products (in Mexico). Lower feed costs in Mexico could ultimately boost fluid milk production. However, no major expansion in Mexico's dairy product output is expected under a free trade agreement. Mexican exports of dairy products will likely remain extremely limited due to present sanitary restrictions,

the comparatively small size of the Mexican industry, and Mexico's large deficit in dairy products.

U.S. International Trade Commission, *Potential Impact on the U.S. Economy and Selected Industries of the NAFTA*, January, 1993:

NAFTA will likely benefit the U.S. dairy products sector in both the short and long term because (1) Mexico's dairy industry is at a competitive disadvantage relative to the U.S. dairy industry, and (2) Mexico's production of milk and dairy products does not meet its domestic demand. While NAFTA will likely result in only a minor increase in U.S. imports of Mexican dairy products in both the short and long term, the agreement will likely lead to a considerable increase in U.S. exports of dairy products to Mexico. ... NAFTA will likely have little or no short- or long-term impact on U.S. imports of dairy products from Mexico, with the possible exception of a minor increase in U.S. imports of cheese and a few specialty products. U.S. health and sanitary regulations for milk and other fluid dairy products will continue under NAFTA. Mexican dairy products generally do not comply with U.S. health and sanitary regulations.

U.S. Congress, Congressional Budget Office, *A Budgetary and Economic Analysis of the NAFTA*, July, 1993:

Despite the removal of the section 22 quota restrictions on U.S. imports of Mexican dairy products, most analysts agree that U.S. dairy producers would benefit from the agreement. At present, Mexico is a net importer of dairy products, importing large quantities from the EC, New Zealand, the U.S., and Canada. Facing a shortage of productive capacity, the Mexican dairy sector lacks the technology and infrastructure to expand rapidly. Access to the U.S. markets, as well as changes in domestic policies, could encourage some investment in and expansion of the sector over the long term, but a dramatic change in Mexican exports to the U.S. is unlikely.

Overall, the NAFTA will be a major plus for the U.S. dairy industry.

I appreciate this opportunity to provide the Committee with our views on the North American Free Trade Agreement. I will be happy to respond to any questions.

**TESTIMONY OF JERRY CALVANI**  
**on behalf of the National Cotton Council**  
**BEFORE THE COMMITTEE ON AGRICULTURE**  
**HOUSE OF REPRESENTATIVES**  
**October 19, 1993**

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Thank you Mr. Chairman. We commend you for scheduling this timely hearing and sincerely appreciate the opportunity to appear before you today to discuss the cotton industry's analysis of the North American Free Trade Agreement, known as the NAFTA. You may recall that in earlier testimony, we expressed significant reservations about the impact of a NAFTA on our industry.

The membership of the National Cotton Council of America has been deep in thought the last several months over what to do about NAFTA. The Council was an active participant throughout the negotiating process and has evaluated the final result in an effort to develop an industry-wide position on the agreement. I have enclosed with my written testimony a copy of a resolution recently adopted by our Board of Directors putting the National Cotton Council on record as supporting implementation of NAFTA.

The cotton industry has been involved in the NAFTA negotiations on two fronts--agriculture and textiles. The final agreement does not contain all of the provisions we supported. The cotton industry has consistently expressed concern about NAFTA's rule of origin for textiles. Our members uniformly agree that the cotton industry would be better served if NAFTA included a fiber-forward rule of origin instead of the yarn-forward rule that was adopted. Further, the Council voiced its opposition to the tariffication of section 22 import quotas with Mexico. Despite our opposition, these quotas will be converted into tariff rate quotas in the final agreement. We are, however, supportive of the 16 cent initial tariff level which will be applied.

But as our industry evaluated this agreement, we tried to measure it not by what negotiating positions we had won or lost, but by whether NAFTA will be good for U.S. cotton.

When our membership viewed NAFTA as a whole, it determined that the agreement, on balance, met the requirements of NCC resolutions on the subject, namely, that the agreement gives the U.S. cotton industry the best opportunity for supplying apparel and other end use manufacturing industries with U.S.-produced cotton and its products.

Mr. Chairman, the U.S. cotton industry is supportive of NAFTA for the following reasons:

First, we think cotton demand will grow, and the recent decline in Mexican cotton production and huge increase in our cotton exports to Mexico indicate that the U.S. will be the primary supplier of cotton to Mexico to meet that demand;

**Second**, the majority of the U.S. textile sector is convinced that NAFTA will be good for their business and could be their only way to offset serious losses they expect if the GATT negotiations governing textiles are concluded in their current form;

**Third**, although we are concerned about the decline of apparel manufacturing in the United States, we believe NAFTA will discourage the movement of those industries to Asia. Under NAFTA it is more likely those industries that are going to leave the U.S. will move to Mexico, where they will be a likely buyer of our product; and

**Fourth**, we believe the U.S. cotton, cottonseed oil, yarn, and textile producer can compete and win with those industries in Mexico, provided there is continued support in Congress and the Administration for an effective cotton program.

The final agreement has met with opposition from some cotton producers who are concerned about its potential risks and its effect on small businesses in their communities. In supporting this agreement, the Council acknowledges these risks and these producers' concerns. We are supportive of efforts by the Administration and this Committee to reduce any negative effects of NAFTA on U.S. jobs.

Turning to the implementing legislation, as you are aware, the NAFTA calls for the current cotton quota with Mexico of 18,000 bales to be replaced with a tariff rate quota under which about 46,000 bales would be allowed entry into the US duty free during the first year of the agreement. Any imports of raw cotton above that amount would face a tariff of 26% ad valorem, or around 16.5 cents per pound.

The 46,000 bale tariff rate quota would be increased at a rate of 3% per year, and the tariff would be phased out over 10 years. So, by the 10th year of this agreement, there will no longer be any quota or tariff in place to restrict raw cotton trade between the U.S. and Mexico.

**Mr. Chairman, in our opinion, the agriculture portion of the implementing legislation should affect U.S. cotton only to the extent necessary to implement these changes to the section 22 import quota. In our opinion, no other revisions to laws affecting cotton are necessary or appropriate.**

We have concerns about the possibility of other countries acceding to this agreement without a thorough and thoughtful negotiating process. In particular, we have concerns about CBI parity legislation being added to this bill. We discussed these concerns with the Office of the U.S. Trade Representative and have been assured that no countries would be added to NAFTA without separate negotiations in which we would be allowed to participate.

The Council has also discussed the issue of the possible cost of the NAFTA legislation with the Trade Representative's office. They relayed to us that they do not intend for the NAFTA legislation to contain unrelated provisions designed to cut agriculture program costs. They do believe there will be budget savings in agriculture as a result of NAFTA's implementation--and we agree. But we are opposed to additional cuts in agricultural programs made just to reduce expenditures.

Mr. Chairman, we cannot predict the future with certainty. We continue to have some concerns about enforcement of the rules of origin contained in NAFTA and the risks associated with the agreement. We are looking forward to working with you to address these concerns and to monitoring the progress of our trade with Mexico under the NAFTA.

That concludes my testimony. I would like to thank you and the members of this Committee for your efforts to represent the interests of U.S. agriculture in general and the U.S. cotton industry in particular. I will be happy to take any questions.

(Attachment follows:)

**Resolution Concerning North American Free Trade Agreement  
Adopted by the Board of Directors  
of the National Cotton Council  
September 22, 1993**

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*Resolved That The National Cotton Council urge the implementation of the North American Free Trade Agreement, as that trade agreement would accord the U.S. cotton, textile and apparel industries the best opportunities, by virtue of location, trading rules or other factors, for supplying apparel and other end use manufacturing industries, wherever located, with U.S.-produced raw cotton, cottonseed and its products, and U.S.-produced textiles.*





## National Grain and Feed Association

STATEMENT OF THE  
NATIONAL GRAIN AND FEED ASSOCIATION  
ON THE  
NORTH AMERICAN FREE TRADE AGREEMENT  
TO THE COMMITTEE ON AGRICULTURE  
U.S. HOUSE OF REPRESENTATIVES  
OCTOBER 19, 1993

Good morning, Mr. Chairman. The National Grain and Feed Association (NGFA) appreciates the opportunity to testify today on effects of the North American Free Trade Agreement (NAFTA).

I am Kendell Keith, President of the NGFA. The NGFA is the national nonprofit trade association of more than 1,000 grain, feed and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets. The NGFA also consists of 37 affiliated state and regional grain and feed associations whose members include more than 10,000 grain and feed companies nationwide.

Accompanying me today is Todd Kemp, Director of Legislative Affairs for the NGFA. Todd returned last week from a trip to Mexico during which he met with Mexican President Carlos Salinas de Gortari, Mexican cabinet-level officials and others. It may be of interest to the committee to hear some first-hand observations following witnesses' prepared statements.

### NAFTA is Good for U.S. Agriculture

Mr. Chairman, NAFTA is good for U.S. agriculture. It will increase U.S. exports of raw commodities, processed goods, and finished food products. NAFTA will benefit U.S. farmers and agribusiness, raising farm income and supporting rural communities. Ultimately, that means jobs -- jobs critical to the 2 million farmers in this country and to the 19 million employees of related businesses and industries. The NGFA strongly urges expeditious approval of NAFTA by the House and the Senate.

Even before NAFTA was negotiated, agricultural trade among the United States, Canada, and Mexico demonstrated the importance of trade to the economic well-being of each country's agricultural sector. More than 90 percent of Mexico's agricultural exports are shipped to the United States, and nearly 80 percent of its agricultural imports originate in the United States. Similarly, Canada is the largest supplier of agricultural goods to the U.S. market, and 60 percent of Canada's agricultural imports are from the United States. Canada and Mexico are the third and fourth largest markets, respectively, for U.S. agricultural goods.

A quick look at the agricultural trade balance of the United States with both Mexico and Canada is instructive. As recently as 1986, the United States had a \$1 billion agricultural trade deficit with Mexico. The picture has changed dramatically since then; during 1992, the United States had a \$1.4 billion agricultural trade surplus with Mexico. Over the same period, the U.S. agricultural trade balance with Canada has shifted from a \$500 million deficit to an \$800 million surplus. Clearly, it is critical to U.S. farmers and agribusiness to maintain close and open trade relationships with our two closest neighbors. As market barriers fall under NAFTA, analysis shows that the United States stands to reap further trade gains.

#### Benefits to Grains and Oilseeds Sector

NAFTA's benefits to the grains and oilseeds sector are clear. Some trade barriers, like Mexico's current 15 percent seasonal tariff on sorghum imports, immediately will be eliminated. Other requirements, such as Mexico's import licensing system, will be converted to transitional tariff-rate quotas and phased out over 10-15 years. By removing these and many other impediments to cross-border trade, the United States will be extremely well-positioned to capitalize on increased market demand.

Specifically, for corn, immediate duty-free access of 2.5 million metric tons will be allowed. Above that level, a tariff of about \$206 per metric ton will be charged on corn imports. The tariff will be eliminated over 15 years, and it could be waived if additional imports into Mexico are needed, a prospect that many feel is quite possible. The bottom line is that at least 2.5 million tons of corn export to Mexico will be guaranteed, an increase of about 2 million tons over last year. By the end of the 15-year transition period, U.S. corn exports to Mexico are expected to reach about 6 million metric tons, as much as 60 percent above levels expected in the absence of NAFTA.

In addition, the 15 percent seasonal tariff on grain sorghum will be eliminated immediately. Grain sorghum exports to Mexico are expected to increase to about 7 million metric tons over the 10-year transition period. Mexican imports of other coarse grains are also expected to increase about 20 percent over non-NAFTA expectations after 10 years. All told, increased U.S. coarse grain exports are projected to raise yearly revenues to the U.S. coarse grain sector by \$400 to \$500 million.

Wheat producers should also benefit from NAFTA. Due to immediate elimination of Mexican import licenses for wheat and a 10-year phaseout of import tariffs, U.S. wheat exports to Mexico should rise to about 1.5 million metric tons, roughly 20 percent above expectations

without NAFTA. These increased exports will result in added revenues to the U.S. wheat sector.

In the oilseed sector, NAFTA will also benefit producers and industry. Elimination of tariffs on soybeans, soybean meal, crude soybean oil and refined soybean oil, as well as tariffs on minor oilseed meals and oils, over a 10-year period is expected to raise soybean exports to about 4.5 million metric tons by the end of the transition period, 20 percent above non-NAFTA projections. Soybean meal exports should increase to about 725,000 tons, 12 percent over estimates without NAFTA. Exports of cottonseed and other oilseeds should also increase moderately. In total, U.S. farm prices for oilseeds are projected to rise by about 2 percent over non-NAFTA conditions, and oilseed sector revenues should increase by \$400 to \$500 million.

#### Benefits to Farm Income and Rural Economic Activity

Grain-based agriculture in the United States needs to export 40-50 percent of total production to have a healthy economy, and NAFTA clears the way for significant increases in export activity. The resulting price gains will benefit farmers and agribusiness in terms of greater revenues and income, as well as greater utilization of U.S. agricultural capacity and infrastructure, one of our greatest competitive advantages over the rest of the world. Export business generated by NAFTA will bolster the 2 million farmers in the United States that provide us with the world's safest, most abundant supply of food and fiber, as well as the 19 million jobs supported by off-farm agribusiness.

Agribusiness is often the largest employer in small towns and rural communities. The grain elevator, the flour mill, the poultry or livestock plant, and other small agribusinesses provide good jobs and the benefits -- health care, pensions, etc. -- that go along with them. Agricultural production and related agribusinesses also generate the level of economic activity in rural communities to sustain rail service, high schools, hospitals, grocery stores, and a wide range of vital community services. Without the export opportunities presented by NAFTA and other trade agreements, production is curtailed, agribusiness falters for lack of inputs and markets, and economic activity is constrained. Only by more fully utilizing our production, marketing, transportation, and export capacity will agriculture thrive and provide the jobs and rural economic opportunity it promises.

Capitalizing on opportunities like NAFTA to increase exports and bolster farm income is especially important in today's climate of shrinking federal support for U.S. agriculture. Last week's action on the honey program and the wool and mohair program should signal to everyone concerned about U.S. agriculture that programs are under intense scrutiny. Realistically, we will probably see a continuing shrinkage in federal funding for agriculture as government attempts to downsize and prioritize spending. We must, therefore, adopt policies that permit U.S. agriculture to replace this loss of support through the marketplace. NAFTA will greatly assist in that process.

Mexico's population is about 92 million people and growing by nearly 2 million additional births each year. Despite impressive economic gains in Mexico, it will be impossible

for Mexico to increase output sufficiently to feed its rapidly growing population. As incomes and living standards rise in Mexico, a tremendous new growth market presents itself right on our doorstep. By geography and by fate, the United States has an advantage over any other country interested in developing business opportunities in Mexico. At a time when a greater share of farm income will need to be gleaned from enhanced market opportunities, NAFTA presents a valuable opportunity. Allowing that opportunity, which holds out the promise of \$1 billion in added revenue to the grain and oilseed sector alone, to pass us by would be a grave disservice to American producers eager to service growing markets like Mexico.

#### Mexican Farm Policy

Some have expressed concern that NAFTA could result in massive U.S. commodity exports to Mexico (e.g., corn) and that the inefficient Mexican subsistence farmer could be displaced from the land. Following that reasoning, he could be pushed toward Mexican cities, compounding their problems, or even compelled to cross the border into the United States to seek work, thereby compounding current immigration problems.

Mr. Chairman, just two weeks ago, a reform program for Mexican agriculture was announced that will minimize any prospect of migration by Mexican peasants from the countryside. Dubbed PROCAMPO, the program will improve the lot of Mexico's 2.5 million subsistence farmers and keep them on the land, while creating conditions under which Mexican commercial farmers will be required to compete on an even footing with other producers in the United States and elsewhere.

In the past, subsistence farmers received no support from the Mexican government. Because they consume their production locally and do not sell into market channels, the mechanism for providing government support has never existed. Government support has gone to larger, commercial farms instead, under a highly protected and subsidized system.

Under PROCAMPO, subsistence farmers will, for the first time, receive direct support from the Mexican government. While their production still will not be great enough to affect commodity markets, the small farmers now will receive roughly a per hectare support payment on their land, similar to decoupling proposals that have been made in the United States. In addition, they will receive a per ton price support payment for their production of seven different crops, similar to U.S. target price support. The per ton price support level will be phased down over the same period as NAFTA, with Mexican corn prices, for example, ending up at world corn prices. And the program is structured so that artificial inducements to overproduce corn will be removed and allow the farmer to make his own planting decisions.

In addition, PROCAMPO will for the first time allow Mexican producers to hold title to their land. In the past, subsistence farmers could only inherit land, divided evenly among all descendants of previous tenants. The result has been the fragmentation of Mexican agriculture and a perpetual underclass of Mexican producers. Now, for the first time, Mexican producers will be allowed to rent their land, sell it to their neighbor, contract farm for a processor or livestock feeder, or any number of other options available to U.S. producers. It is clear that the

subsistence farmers' lot will improve and that his income and standard of living will rise, keeping him on the land, preventing migration to cities and to the U.S. which otherwise might occur, and, hopefully, providing disposable income to buy U.S. products.

The balance of Mexico's 3.3 million producers, which I will call commercial producers, will receive the same per hectare payment and price support. Their price supports will also be phased down from today's very high levels to world market levels. The Mexican government plans to discontinue the per hectare payment within 15 years as NAFTA is phased in. As an end result, Mexican commercial producers will be compelled to compete on even terms with U.S. producers, without the high level of price protection offered in the past.

#### NAFTA -- We Cannot Take It for Granted

The economic reforms implemented by Mexico's current government are nothing short of miraculous. Inflation, which was over 200 percent a few short years ago, is currently running at about 8 percent and projected at about 6 percent next year. Mexico's public debt virtually has been eliminated, with balanced budgets last year and this year. Inefficient state-run bureaucracies have been privatized, with proceeds committed to social and infrastructure improvement. The commitment of Mexico to these reforms and to the promise of future benefits brought on by today's sacrifices should be an inspiration to us.

Many of these Mexican economic reforms have been made possible by the political climate created by NAFTA. The Mexican people have been willing to tighten their belts now in anticipation of better times to come following NAFTA implementation and resulting economic progress. The current Mexican government has staked a tremendous amount of political capital on these reforms and has counted on NAFTA approval by all parties involved.

If the United States fails to approve NAFTA, we very well could find ourselves shut out of the promising Mexican markets detailed earlier in my statement. Rejection of the agreement, according to Mexican officials, would be seen as a slap in the face to Mexico. Anti-American sentiment of the late 1970s and early 1980s could return, along with a real reluctance to purchase U.S.-grown or U.S.-manufactured goods. Mexico could grant NAFTA-type treatment to a number of U.S. competitors, prime among them the European Community and the Japanese, while trade barriers to U.S. products could remain at today's levels.

A number of prominent anti-NAFTA spokespersons have suggested that they are for NAFTA, just not "this NAFTA." The assumption is that a better agreement for the United States could be negotiated if NAFTA falls. Mr. Chairman, there is strong evidence that a new NAFTA could not be negotiated any time soon. In fact, when asked recently how soon Mexico might re-negotiate an agreement with the United States, one government official responded that when his four-year old son reached the age of fifty, then Mexico might consider sitting down at the table again with the United States. While there may be an element of rhetoric involved in his statement, the message we glean from it is that if this NAFTA is rejected, U.S. farmers, processors, manufacturers and exporters will suffer, and the jobs that they sustain will also suffer. Far from costing jobs if NAFTA is approved, agriculture will likely lose a significant

number of export-related jobs if NAFTA is defeated.

Conclusion

To summarize, Mr. Chairman, NAFTA truly will be good for broad-based U.S. agriculture and the 21 million jobs it provides. We have an historic opportunity to forge a close trading relationship, based on neighborly good will and mutual respect, with our two closest trading partners. We are convinced that a great opportunity for agriculture and many other sectors will have passed us by if NAFTA is not approved. We again urge strong support for NAFTA and a positive vote when it comes to the House floor.



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Testimony

on behalf of the

**MEAT INDUSTRY TRADE POLICY COUNCIL**

regarding

**The North American Free Trade Agreement**

before the

**House Agriculture Committee**

submitted by

Mark Armentrout  
Vice-Chairman, Foreign Trade Committee  
of the National Cattlemen's Association  
Roswell, Georgia

October 19, 1993

Good morning. My name is Mark Armentrout. I am a cattleman from Roswell, Georgia, and Vice-Chairman of the National Cattlemen's Association's (NCA), Foreign Trade Committee. NCA represents more than 230,000 cattle producers nationwide. Today I am presenting testimony on behalf of the Meat Industry Trade Policy Council (MITPC), including the National Cattlemen's Association, the American Meat Institute, the National Pork Producers Council, the American Farm Bureau Federation and the United States Meat Export Federation.

Mr. Chairman, the MITPC strongly supports the North American Free Trade Agreement (NAFTA) 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% of the value of its' production and the pork industry exceeds 2.5%. It is in this spirit of new markets for meat that harbors the strong support for NAFTA by the Meat Industry Trade Policy Council.

As the U.S. population ages and slows in growth, continued market growth of U.S. beef and pork 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% of the population being 20 years of age or younger and 80% under the age of 40. The average Mexican family spends about 30% of its disposable income on food, compared to less than 10% in the United States.

Mexico, is a growing economy of 90 million consumers who like to eat meat, 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 for in the United States. As the Mexican standard of living improves, there will be a greater demand for more protein, more beef and more pork. The U.S. already dominates the market for high-quality, grain-fed beef and pork. In addition, increased business activity in Mexico will mean an increase in the hotel and restaurant trade. Mexico is already our second largest export market for pork and 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 beef 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. Pork exports are also growing rapidly. Exports in 1992 of all pork products totaled \$133 million.

These markets are 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 the beef 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 immediately under the NAFTA. The NAFTA also would phase out a 20 percent tariff on beef variety meats over 10 years. Current tariffs on U.S. pork are 20% and would also be eliminated over ten years while tariffs would remain in place for other countries, except Canada.



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. red meat industry is **not afraid to compete** with any country on a level playing field. We are the most efficient producers of high-quality red meat 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. In fact, the tariffs imposed last fall were a statement to competitiveness of the U.S. beef industry. Similar claims against the pork industry are wrong for many of the same reasons.

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 a NAFTA. In fact, imports have slowed in 1991 and 1992 from previous years due to a stronger domestic cattle market in Mexico.

At the present time, Mexico can not export fresh, chilled or frozen pork or live hogs to the United States due to the presence of hog cholera in Mexico. This prohibition will continue under the NAFTA.

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.

We already have an established relationship in this area. During the last two 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. 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.

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. Mr. Chairman, as Congress proceeds with implementing legislation any language reemphasizing no transshipment or displacement would be helpful.

We agree with President Clinton's strong statement last month 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 and pork 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 U.S. 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 U.S. 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.

**Statement by C.T. Fredrickson  
National Council of Farmer Cooperatives  
Before  
House Committee on Agriculture  
Tuesday, October 19, 1993**

Thank you, Mr. Chairman. My name is Terry Fredrickson and I serve as Chairman of the Board of the National Council of Farmer Cooperatives on whose behalf I appear today. I am also chief executive officer of AgriBank, which is headquartered in St. Paul, Minnesota. With assets of over \$13 billion, AgriBank is a member of the cooperative Farm Credit System.

The National Council of Farmer Cooperatives is a nationwide association whose members include over 100 regional marketing and supply cooperatives, the banks of the cooperative Farm Credit System, and 31 State Councils. Our members, in turn, represent over 4,000 local cooperatives with a combined membership of nearly 2 million individual farmers.

These farmer-owned businesses handle, process, and market virtually every agricultural commodity grown in the U.S., manufacture or provide seed, feed, fertilizer, fuel and other production inputs; help finance both producers and their cooperatives, as well as engage in international lending necessary to promote U.S. agricultural exports.

It is from this perspective that we appreciate very much the opportunity to share our views with regard to the North American Free Trade Agreement (NAFTA) and its implications for U.S. agriculture and rural America.

First, we believe that NAFTA on balance provides both U.S. agriculture and rural America with an opportunity to share in the continued growth of trade with Mexico -- which is vitally important. Since 1987, for example, our exports have virtually tripled, reaching nearly \$4 billion, and making Mexico our third largest single market behind Japan and Canada. Eighty percent of Mexico's total food imports now come from the United States.

There are several factors behind this explosive growth. One is that Mexico significantly reduced their tariffs in joining GATT -- allowing the U.S. to increase its market share. Another is that Mexico has enjoyed a period of sustained economic growth which also contributed to an increase in real per capita food consumption.

Mexico now accounts for nearly 10 percent of our total agricultural exports. These exports alone also account for nearly 100,000 jobs with many of these located in rural America where employment opportunities are often limited. Clearly, we have an interest in maintaining our share of this important market.

This is especially true as we look at Mexico's market potential in terms of population, consumption patterns and related expenditures, future economic growth, and the likelihood of continued market access.

In terms of population, Mexico is fast growing -- increasing about 2 percent annually. Over the next 15 years, Mexico's population is expected to grow from 90 million to 120 million. Even though its population is smaller because of its faster rate of growth, Mexico will add nearly as many new consumers over the next 15 years as will the United States.

Mexico's per capita food expenditures are also expected to increase significantly. Currently, such expenditures are only about one third that of the U.S. For example, in Mexico food expenditures average about \$800 versus \$2,400 in the U.S. History has shown that with economic growth and increasing incomes comes a desire for improving diets.

As a result, Mexico is expected to continue to devote nearly 40 percent of its income toward food expenditures. In the U.S. we spend less than 10 percent of our income for such expenditures. Every dollar gain in Mexican income as a result of increased economic growth translates into an additional 40 cents spent on food and related products -- four times that of the United States.

The key of course is continued economic growth. For Mexico (and the U.S.) NAFTA is critical. Under NAFTA, Mexico's economy could grow as much as 4 percent annually. Based on current population and consumption trends, Mexico's demand for food may increase as much as 6 percent annually. To meet such demand, Mexico will need to greatly expand domestic production as well as its current level of imports.

With its close proximity to the Mexican market and favorable tariff rates under NAFTA, we expect the U.S. to maintain its commanding 80 percent share of Mexican food imports. Based upon our own analysis, we believe U.S. exports to Mexico under NAFTA could reach \$10 billion or more annually over the next 15 years -- or two and one half times what they are today. Such a level would result in over \$14 billion in additional economic activity, help create as many as 150,000 new jobs, and expand the existing tax base -- all of which rural America needs in order to survive.

Imports from Mexico are also likely to increase -- rising from about \$2.5 to \$4.0 billion or more at the end of 15 years. However, because U.S. agricultural exports are projected to increase at an even faster rate, the U.S. should have a positive trade balance of \$6 billion or more -- which is nearly three times higher than it is today.

Without NAFTA, our potential exports will likely be significantly less, with lower economic activity, fewer jobs, and a reduced tax base. This is especially true should Mexico decide to reimpose higher tariffs on U.S. agricultural products or enter into more favorable trading arrangements with other competing countries, including Canada.

The second point we would make is that while a strong case can be made for NAFTA, it is important to recognize that not all sectors of agriculture may share in gaining greater access to Mexico. This is especially true for a number of import-sensitive commodities, which may face increased competition and a difficult period of transition to a more open marketplace under NAFTA. This would include, for example, a number of selected fruits and vegetables, as well as other specialty crops such as peanuts and sugar.

As we look at NAFTA, the question becomes: How do we take advantage of the opportunities it provides, while helping to minimize the potential economic disruptions it may also have on certain sectors of agriculture and related rural communities? This is the underlying debate surrounding NAFTA. In a larger sense, it also reflects a number of ongoing trends and continued concerns over the ability of U.S. agriculture and rural America to remain viable and competitive near and long term.

This brings us to our third and final point. In order to realize the full benefits of NAFTA, provide for a smoother transition period of import-sensitive commodities, and address other underlying concerns, we believe a number of actions need to be taken as part of a new "agricultural investment and market expansion program" (AIM). Such a program would have three essential elements:

- (1) Encourage Needed Investment;
- (2) Enhancement Market Opportunities; and
- (3) Provide Transition Assistance.

In the context of NAFTA, as we look to the future, one of the most pressing needs facing agriculture and rural America is attracting necessary capital and investment. Without it, we can not begin to make the adjustments necessary during this period of transition in order to remain economically viable and competitive. This is why it is essential to encourage both public and private investment in agriculture and rural America.

However, with the limited resources available to the Federal government because of continued budget pressures, the focus of public policy should be to make it easier for the private sector to play a greater role. This includes the Farm Credit System, which was established just for this purpose.

Accordingly, we strongly support a proposal as outlined in testimony submitted by the Farm Credit Council which would allow Farm Credit System institutions, either by themselves or in combination with non-System entities, to invest in separate investment subsidiaries called Rural Competitiveness Organizations (RCOs). With appropriate safeguards, RCOs would help attract capital and investment necessary for modernizing plants and facilities, meeting environmental and other regulatory requirements, including water and waste water facilities, as well as helping meet the needs of beginning farmers. By eliminating barriers to such investment, Congress can help channel needed financial resources and related services to agriculture and rural America without the expenditure of any Federal dollars.

To enhance market opportunities under NAFTA, such a program should also provide additional authority for the banks for cooperatives to help farmers through their cooperatives gain greater access to the Mexican market, including through joint venture and other strategic alliances with allied businesses.

Current law now limits the ability of the banks for cooperatives to help meet the credit needs of farmer cooperatives now involved or exploring future joint ventures and other business relationships for the benefit of their farmer-owners. Without adequate credit and related services, farmers and their cooperatives will find it difficult to compete and take advantage of market opportunities, including those provided under NAFTA.

For this reason, we believe legislation is needed which would allow the banks for cooperatives to finance both joint ventures and related business activities involving farmer cooperatives as proposed in related testimony by CoBank, which is also supported by the Farm Credit Council

This also includes strengthening the ability of the banks for cooperatives to help finance increased agricultural exports to Mexico as well as other countries. Specifically, we believe legislation is needed which would provide more flexibility for CoBank to finance the sale of any U.S. agricultural exports. With the exception of CoBank, most agricultural export financing is provided by foreign banks with little or no long term commitment to U.S. agriculture. Providing this authority would help create a more level playing field internationally and strengthen U.S. export efforts for both farmers and their cooperatives.

To provide for a smoother transition period under NAFTA for producers of import-sensitive commodities, we believe a number of actions could be taken under such an overall program. These include:

1. Require the Secretary to fully utilize all of the export, food assistance and surplus commodity disposal programs of the Department of Agriculture and the Commodity Credit Corporation (CCC) to help offset or counter any negative impact relating to NAFTA.

In the case of import surges of a particular commodity, for example, the Secretary would be directed to use any one or a combination of programs to provide other market outlets for domestic producers. This would include purchase and removals for related domestic feeding programs, overseas donations or concessional sales, as well as the use of the Export Enhancement Program (EEP) and Market Promotion Program (MPP) to develop, maintain and expand other existing or new markets for such commodities.

2. Give priority in purchasing agricultural goods for the operation of Department of Agriculture surplus removal and feeding programs to commodities negatively impacted by NAFTA, as well as with regard to various export programs.
3. Authorize transitional assistance payments to the extent funds are available to further off-set the impact of any NAFTA-related import surges.

4. Require the Secretary to monitor and report to Congress on the implementation of NAFTA, its impact on various sectors of agriculture, and what actions have been taken to capitalize on the benefits of NAFTA as well as minimize any adverse effects. In addition, we believe the legislation should provide for consultations with industry representatives regarding the implementation of NAFTA as well as what actions need to be taken to address related concerns.

Mr. Chairman, we believe with this overall package, U.S. agriculture and rural America will be better positioned to realize the full benefits of NAFTA as well as to adjust to changing market conditions and increasing competition. For these reasons, we strongly urge its consideration and we pledge to continue to work with you and this Committee as part of this process.

Thank you.

**TESTIMONY OF**  
**DOUGLAS D. SIMS**  
**PRESIDENT AND CHIEF OPERATING OFFICER**  
**of**  
**CoBANK--NATIONAL BANK FOR COOPERATIVES**

Mr. Chairman and members of the committee, my name is Doug Sims. I am the President and Chief Operating Officer of CoBank--National Bank for Cooperatives.

CoBank is part of the Farm Credit System. The bank provides financial services to farmer-owned cooperatives; rural utility systems--including electric, telecommunication, water, and waste disposal systems; and to facilitate the export of U.S. agricultural products. With \$13 billion in assets and customers doing business throughout rural America, we are keenly interested in federal policy issues that affect agriculture and rural communities.

I will begin my comments by stating that CoBank supports NAFTA. However, we recognize that steps should be taken to minimize and mitigate, if necessary, the affects NAFTA may have on certain industries, including agriculture.

In addition, we believe actions can and should be taken to assist farmers, farmer-owned cooperatives, and rural communities in becoming more competitive. While these actions will certainly help farmers and rural communities adjust to the environment under NAFTA, it's our view that these actions should be taken irrespective of the final outcome of NAFTA.

Regardless of what happens to NAFTA, there will be no turning back of the clock. Whether we like or not, all of us are affected by the changes taking place in the new global economy. Our challenge is to find ways to help American agriculture and rural communities better compete in that global economy.

CoBank clearly has a role to play in helping farmer-owned cooperatives and rural communities to become more competitive. Our interest in this area is driven by the knowledge that Congress established the Farm Credit System and CoBank to serve rural America. We are also motivated by the fact that our customer-owners are demanding financial services they will need to survive so they can serve their rural customers and realize the benefits of a prosperous rural economy.



The future of rural America will be largely dependent on the maintenance and expansion of export markets, the development of new markets in foreign countries, and on the ability of farmers to capture profits that can be realized by adding value to their product after it leaves the farm gate.

I would now like to outline specific proposals--with both a domestic and international orientation--that will ensure the availability of financial services needed by important segments of agriculture and the rural economy to compete effectively in the future.

### International Financing

Congress should eliminate the barriers that exist for farmer-owned cooperatives in obtaining financing for domestic and international business activities in which they have an ownership interest. We propose that the Banks for Cooperatives--which includes CoBank--should be authorized to provide financing of joint ventures, partnerships and similar arrangements where cooperatives have an ownership interest.

Under our proposal, when one or more eligible farmer-owned cooperatives owns at least 50 percent of a partnership or joint venture, the bank would be able to provide financing directly to that entity. In cases where farmer-owned cooperatives have less than a 50 percent ownership stake, financing would be limited to financing the organization's needs up to the percentage of ownership held by eligible cooperatives.

Many farmer-owned cooperatives are seeking new business opportunities through joint ventures and partnerships in foreign countries and in the U.S. Such strategic alliances are common for many businesses and essential for farmer-owned cooperatives seeking to enter new markets or create new sources of profits for farmers by adding value to agricultural commodities.

Current law--which did not contemplate today's economic environment--inhibits farmer-owned cooperatives from entering into such arrangements by restricting the ability of their traditional lenders, the Banks for Cooperatives, from providing needed financing. The effect of this limitation is profound since the Banks for Cooperatives provide about 85 percent of all the credit extended to farmer-owned cooperatives.

I will provide some real-life examples of how this authority would be used.

In August, CoBank sponsored a series of meetings in Mexico City involving representatives from about 40 U.S. farmer-owned cooperatives, Mexican government officials, and Mexican agricultural leaders. Since that time, the bank has been involved in discussions with several U.S. cooperative customers with promising plans to expand their markets in Mexico.

One of these customers is a fruit processing cooperative that has an opportunity to ship concentrated juice to Mexico. A large Mexican food distributor has proposed to form a joint venture with the cooperative to reconstitute the juice product and package it into retail sized units for local distribution.

A group of dairy cooperatives in Texas and other Southern states are considering investment opportunities in a joint venture to allow them to increase fluid milk sales to Mexico for further processing into products such as ice cream for sale into the local markets.

A Midwest cooperative has already made an initial investment in a Mexican food distribution firm in an effort to increase sales of processed meat products into the Mexican market. The question has been raised about the bank's ability to participate in financing the expansion of this and other such partnership arrangements.

Under current law, CoBank cannot finance these projects. If viable businesses like these are not developed by farmer-owned cooperatives, U.S. farmers will lose out on new markets for their products. In addition, much of the economic activity in the U.S. that is stimulated by increasing exports will also be lost.

It is estimated that each \$1 in U.S. agricultural exports generates an additional \$1.40 in related economic activity. Each \$1 billion in agricultural exports is estimated to create 21,900 jobs. When a U.S. farmer-owned cooperative is involved in processing and exporting an agricultural product, more of the financial benefits are realized by the farmer--not some giant food conglomerate.

To facilitate the sale of additional agricultural exports, we propose that Congress authorize CoBank to finance the sale of any agricultural product originating in the U.S. Except for agricultural products purchased by the states of the former Soviet Union, current law limits CoBank to financing only those exports that originate from agricultural cooperatives.

Our proposal would make U.S.-based financing more readily available to a broader segment of U.S. agriculture. With the exception of CoBank, most agricultural export financing is provided by foreign banks with little or no long-term commitment to U.S. agriculture and little or no interest in the long-term health of our nation's farm economy.

Based on CoBank's past experience, we can demonstrate that the availability of the bank's financing has resulted in sales of U.S. agricultural products that would not otherwise have taken place.

It is important to note that CoBank has an obligation to protect the interests of the farmer-owned cooperatives involved in export markets and who capitalize the bank. For that reason, we support a clear statutory mandate that the bank must continue to give priority treatment to farmer-owned cooperatives.

When implementing the bank's authority to finance exports to the former states of the Soviet Union, it was our practice to use this authority to steer business to farmer-owned cooperatives. The changes in law we are proposing are consistent with this practice. Our proposal is simply a recognition that all U.S. agricultural exports originate from a farm and any assistance we can provide to expand export markets is consistent with our mission to serve agriculture.

#### Cooperative-Related Business

We propose that the Banks for Cooperatives be authorized to finance certain agriculturally-related business activities that provide a direct and material benefit to farmer-owned cooperatives. This authority would be particularly beneficial to farmer-owned cooperatives that must rely on other entities to process, market, or in other ways add value to their products.

Specifically, the proposal would authorize the Banks for Cooperatives to finance those entities that provide agriculturally-related services or products to cooperatives, upon meeting the following conditions.

- The cooperative must certify that a material business relationship exists between the cooperative and the entity and that the cooperative derives a direct and material benefit from that relationship.
- The loan must provide a direct and material benefit to the cooperative; and
- The cumulative amount of all such loans to any one entity may not exceed 10 percent of the bank's total capital.

The objective is to help our farmer-owned cooperative customers become more competitive by assisting their marketing and processing efforts. An equally important objective is to help farmer-owned cooperatives realize some of the profit to be made by adding value to agricultural commodities.

An example is the case of a citrus marketing cooperative which purchases fruit not only from farmer members, but also from a packing house. Maintaining and encouraging the packing house business volume allows the cooperative and its farmer members to be more efficient in its marketplace thereby increasing the returns to its members. This is the kind of project the bank is often approached about financing. The ability of the cooperative to bring financing to a third party--like the packing house--greatly strengthens the negotiating position of the farmer-owned cooperative and the relationship to the third party that provides an essential service.

In 1980, farmers received 37 cents of each dollar spent on food at grocery stores. That return for farmers has been declining every year since 1980 and today is about 25 cents for each consumer dollar spent. More than at any time in our history, farmer-owned cooperatives appreciate the importance of capturing the profits to be realized by adding value to their own products, and marketing these value-added products in the U.S. and in other countries.

**Equity Investments**

Other witnesses will provide more detailed information on a proposal that will enable Farm Credit System entities to establish a mechanism for providing equity capital to certain target agricultural groups. CoBank supports this proposal.

Farmer-owned cooperatives along with the Banks for Cooperatives have the expertise, market access, and raw commodities to make products that consumers want both here and around the world. The missing ingredient all too often is equity capital. The proposal that would create Rural Competitiveness Organizations would be an important step toward addressing that problem.

Mr. Chairman and members of the committee, I appreciate the opportunity to appear here today. I would be pleased to respond to any questions.



Corporate Headquarters

**ConAgra, Inc.**  
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STATEMENT OF RICHARD L. GADY,  
VICE PRESIDENT, PUBLIC AFFAIRS AND CHIEF ECONOMIST  
CONAGRA, INC., OMAHA, NEBRASKA  
IN SUPPORT OF THE NORTH AMERICAN FREE TRADE AGREEMENT  
BEFORE THE COMMITTEE ON AGRICULTURE  
U.S. HOUSE OF REPRESENTATIVES, WASHINGTON, DC  
OCTOBER 19, 1993

Mr. Chairman and members of the Committee, my name is Richard Gady, Vice President of Public Affairs and Chief Economist of ConAgra, Inc. I thank you and the Committee for the opportunity to testify on NAFTA, the North American Free Trade Agreement. I am here to express strong support for NAFTA.

ConAgra is an agribusiness company with \$22 billion in annual sales. We operate across the food chain and derive nearly 10 percent of our revenues from agricultural exports. Exports to Mexico account for over \$260 million of our revenues. This volume has grown over 80% in the last two years. This growth, made possible by a unilateral liberalization of trade and economic growth in Mexico, has contributed to the returns of American farmers and created jobs for American workers.

Feeding People Better

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Statement of Richard Gady

NAFTA will result in even more export growth to Mexico for at least three reasons. (1) Tariff and non-tariff barriers will be reduced. (2) Economic growth in Mexico will be higher with NAFTA than without NAFTA. (3) It will be easier to export to Mexico from an administrative and risk standpoint.

Mr. Chairman, you and members of this Committee know the importance of exports to U.S. agriculture and that NAFTA will generate more U.S. agricultural exports, creating jobs in the U.S. economy. Based upon our experience and perspective in Mexico, this appears not to be debatable.

Overall U.S. agricultural exports have stagnated the past few years. We have suffered from the loss of the Former Soviet Union and Eastern Europe as major markets for the U.S. We cannot afford to slam the door to ourselves on growing markets like Mexico and leave the door open for others. Latin America represents a growing market of 400 million people and NAFTA is the first step in gaining more access to that market.

While ConAgra is basically not a producer of farm commodities, we do purchase the output of tens of thousands of producers from around the country. Many of these purchases are for processing and then export. Of the more than \$260 million in agricultural products ConAgra sends to Mexico, nearly 60% are value-added products produced in plants in a number of states.

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Statement of Richard Gady

Our exports cover a wide range of agricultural products. They include high-tech frozen dinners, chicken and pies from our frozen foods companies; popcorn and french fries from Golden Valley; frozen potato products from Lamb-Weston; hams, tenderloins, ribeyes, chucks, strips, rounds, etc. from our Red Meats companies; edible beans from Klein-Berger; an array of over 35 branded, packaged meat products from Armour Swift-Eckrich; Butterball poultry products; and grain and grain by-products from Peavey and our grain processing companies.

These exports account for approximately 5,000 jobs in the U.S. economy. We are exporting products, not jobs!

We are absolutely convinced that NAFTA would enhance our export opportunities to Mexico, and that our \$260 million export number will more than double in five years, creating at least an additional 5,000 jobs in the U.S. Agricultural commodity prices in the U.S. will be positively impacted and farmer profits increased. Conversely, a defeat of NAFTA would result in a slow down in exports, eventual job losses, and a negative impact on agriculture. Let me give you some examples.

ConAgra currently exports several million pounds of frozen potato products to Mexico to help supply a 35-40 million pound market. This is despite a 20% import duty on these potato products at the border. Our potato company believes the french fry market in Mexico could



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Statement of Richard Gady

reach 500 million pounds in 10 years. With the current 20% import duty, there is a strong incentive for U.S. companies to consider locating in Mexico and trying to develop local production. If NAFTA passes and this tariff is phased out over time, there is much more incentive to locate those plants and jobs in the U.S.

ConAgra also exports over \$130 million of meat and packaged meat products to Mexico. This is despite a 20% import duty on many meat products moving into Mexico. We would expect meat demand would grow rapidly in Mexico if NAFTA is approved, due to the positive impact on income growth in Mexico. However, the same potential adverse impact on U.S. jobs mentioned above on potatoes applies to meat exports. Without the 20% tariff on many types of meat products, our exports of processed meat products to Mexico would be even greater as would the number of jobs in the U.S. and returns to U.S. producers.

Some have criticized NAFTA because of the long phase out period for tariffs for sensitive products to the Mexicans. We, too, wish all barriers limiting exports to Mexico were eliminated immediately, but that was not possible by either side. The point I would like to make is that plant location decisions are very long term decisions. Knowledge that a current incentive to locate in Mexico will be eliminated over time is likely sufficient to favor locating or expanding U.S. production. Thus, the real favorable long term positive effect for the U.S. is preserved.

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Statement of Richard Gady

The Japanese market is a good example of what can happen without a NAFTA type of agreement. The average Mexican currently spends \$380 per capita per year on U.S. products, more than the average European and about as much as the average Japanese, who earns almost ten times as much. The U.S. has a balance of trade surplus with Mexico and a huge deficit with Japan.

Without a trade agreement, Japan has maintained substantial barriers to access and has kept U.S. products out. NAFTA does the opposite, it reduces and eventually eliminates barriers. Given a level playing field, the huge productivity advantage that U.S. farmers and agribusiness has will win internationally. The U.S. needs to pursue trade policies that allows this productivity advantage to work to our benefit. NAFTA is such a policy.

Mr. Chairman, American agriculture, agribusiness and farmers have all reaped benefits from the economic growth and trade liberalization in Mexico. NAFTA is important to not only insure future growth in U.S. exports and job creation in the U.S., but also to lock in the recent gains that have been made.

Our trade and relations with Mexico will not stand still. With NAFTA our trade will grow, creating jobs in the U.S. and improving returns to farmers. Without NAFTA, we stand to lose many of the gains that have been made.

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Statement of Richard Gady

Mr. Chairman, our interests are simple. We want to export more products to Mexico and be able to expand our U.S. plants. We want to see tariffs reduced and U.S. access to markets improved around the world. NAFTA will help accomplish that. I strongly encourage the Congress to support it.

Mr. Chairman, I will be happy to answer any questions that the Committee may have. Thank you for allowing me to testify on this important issue.

TESTIMONY OF MICHAEL HANCOCK  
EXECUTIVE DIRECTOR, FARMWORKER JUSTICE FUND

Mr. Chairman, members of the Committee, thank you for this opportunity to appear before the Agricultural Committee and testify about the impact of the proposed North American Free Trade Agreement on U.S. farmworkers. NAFTA is critically important to farmworkers and your consideration of issues important to them is greatly appreciated.

I am Mike Hancock, the executive director of the Farmworker Justice Fund. FJF is a non-profit advocacy organization concerned with a broad range of issues concerning farmworkers. We have followed the debate over NAFTA very closely and would like to share our views with you about the impact of that agreement on farmworkers.

There are over 4 million people in the U.S. who are dependent on seasonal agricultural work for their livelihood. Contrary to some opinion, the vast majority of these people are legal residents of the U.S. and have devoted most of their working lives to putting food on our tables. By any measure they are a uniquely vulnerable workforce. U.S. farmworkers are among the poorest of the working poor; more than sixty percent are illiterate--most do not speak English. This workforce is uniquely vulnerable to the changes in the U.S. economy which will result from ratification of this NAFTA and the ameliorative measures proposed by the Administration do not adequately address this vulnerability.

One would be hard pressed to name another group of workers who are likely to pay a higher price for NAFTA.

There is a real threat to many sectors of the U.S. agricultural economy from NAFTA--particularly but not exclusively winter vegetable, citrus, sugar, other crops in direct competition with Mexico growing seasons. For each box of citrus that moves to Mexico, a U.S. worker will see wages reduced accordingly. I have seen no study which contends that we will see a net gain in labor intensive agriculture as a result of NAFTA and many that find a net loss.

The loss of production will be compounded by the unintended consequences of NAFTA and other changes in Mexico. Currently, there is a huge surplus of agricultural labor in the U.S. Fully one-third of U.S. farmworkers are unemployed during the time of peak labor demand. This surplus will only get worse under NAFTA.

One group which is likely to be particularly hard hit are Mexico's peasant farmers who will be unable to compete with Midwest corn producers. This is exactly the group which fuels the current migration to the U.S. for agricultural labor. An additional factor which will add to the impetus for further migration is the planned breakup of the ejido system, under which peasant farmworkers farm land is held in common. A third factor leading to increased migration is a consequence of the accelerated shift within Mexico to an export agriculture based on fruit and vegetable production. The current center of the Mexican winter vegetable industry in Sinaloa, Mexico is a way station for migrant workers, not just from southern Mexico,

but also from El Salvador and Guatemala. workers pulled into this migrant stream are likely to continue on the additional few hundred miles more to better jobs in the U.S. The expanding Mexican export oriented agricultural industry will lead inexorable to more, not less, migration to the U.S.

NAFTA holds no advantages for U.S. farmworkers and promises to make an already overcrowded labor market worse. But the proposals to soften the blow for displaced workers offers no real comfort to U.S. farmworkers.

The most well known protections are job retraining and other "adjustment assistance" for displaced workers. Various proposals are being developed and the big question is who and what pays for that program and who controls its benefits. However, the necessary scope and funding for the retraining program is woefully inadequate even for a small portion of displaced farmworkers.

Because most farmworkers live in poverty and relocate often, they will not be able to participate in training programs unless they are provided with living expenses during training. Before they can learn new job skills, farmworkers need literacy programs, first in their native language and then English. A conservative estimate based on a loss of fifty thousand jobs in Florida alone and a cost of \$5,000 per trainee (the current cost on retraining and placing a farmworker under the federal program) suggests that the NAFTA price tag for retraining farmworkers in Florida alone would be \$250,000,000. The

cost nationwide will be several times this amount.

The following provisions are needed to prevent or at least alleviate undue harm to farmworkers caused by NAFTA:

-- Maintain and strengthen U.S. Pesticide and other Environmental Standards; harmonize Mexico's standards with those of the U.S.; defend state and local governments' rights to develop standards more stringent than federal standards;

-- Maintain and strengthen U.S. labor standards for wages, working conditions, overtime, occupational safety and health, right to organize, collective bargaining, and develop agricultural worker rights; harmonize upward with Mexico;

-- Impose penalties for a government's failure to enforce its own environmental and labor standards and permit individual citizens and/or organizations to initiate the litigation process leading to punishment. There could be individual private rights of actions in the country affected by another nation's violations, or perhaps a petition process whereby citizens demand that their own country pursue the claim. A nation's failure to enforce could be measured

by proving: extensive violations of law in a sector or crop; lack of meaningful governmental efforts or funding to enforce law; negative economic or health-related impact on persons in the other nation. Penalties could include economic damages, cease and desist orders, and reinstatement of tariffs.

-- Domestic Retraining and Income Maintenance programs must recognize farmworkers' distinctive characteristics or farmworkers will not benefit from such programs. For farmworkers, particularly migrants who switch employers frequently, it would be virtually impossible to prove a direct cause-and-effect between NAFTA and a particular job loss. Due to their often low level of education and limited knowledge of a language, farmworkers frequently will need to become literate first in their own language (often Spanish) and then in English before vocational training can be effective. Income maintenance will be critical if workers, particularly migrants, are to stay in one place long enough to gain the benefits of the retraining program. Unemployment compensation is often not available or is too short.

-- Availability of Legal Services to Mexican citizens, in Mexico, who work in the United



States, to ensure that the likely continued flow of Mexican workers does not permit U.S. employers to violate U.S. labor laws. Mexico should also be encouraged to establish legal services programs so that the working poor can engage in private enforcement of their own laws inside Mexico.

Economic integration with Mexico is inevitable and necessary if we are to solve our common problems such as continued immigration from Mexico, opening markets, and bringing Mexican labor and living standards up to our own. But this is not the agreement that will accomplish these worthy goals but will, particularly for farmworkers, exacerbate already terrible labor conditions. We should go back to the drawing board and do better. Not only can we do it right but we must if all U.S. residents are to share in the benefits of economic integration with Mexico. Thank you for the opportunity to appear here today.

## TESTIMONY FOR THE COMMITTEE ON AGRICULTURE

OCTOBER 19, 1993

I would like to take a few minutes to address you as to what we, the producers, see as the advantage and potential problems involved in the North American Free Trade Agreement are. While we feel that the idea of free trade is good, we also feel that all growers must first be playing on the same field. Adverse wage laws, chemical regulations labor laws and subsidies must be at the same level in all countries and for all growers.

In the May 3, 1991 Wallstreet Journal Article there is a fine example of how subsidies are misused in this country. According to this article in 1989, the Boswell family had 23,238 acres that was sold to something called the Westhaven Trust. According to the article, this trust has a total of at least 326 beneficiaries. All of the beneficiaries were employees of J. G. Boswell family. Forbes magazine has estimated the net worth at \$500 million. According to this article, this trust received \$8,392,320 in government subsidies in one year, due to business set up. It is impossible for small producers to compete with such large businesses when they are finding such loopholes and receiving small fortunes from the U.S. Treasury. How can this work with the North American Free Trade Agreement? The above example is probably one of thousands such similar incidents.

Our government also subsidizes numerous other agricultural products. In order to create a fair playing field for all producers, this must be stopped. There are powerful lobby groups that assist in keeping many of these subsidies in place. Furthermore, there is nothing to keep these huge farmers from diversifying into other crops such as fruit and vegetables which we produce. It is not fair to the small producers to have to compete against the large growers who are receiving subsidies on other agricultural crops to keep them going. Given the amount of the U.S. deficient, as well as NAFTA, all farm subsidies must be stopped.

Another problem that will definitely interrelate with NAFTA is the cost of labor, labor housing, and other required benefits. I am sure that all of you are probably familiar with adverse wage rates. Each migrant laborer we currently employ is costing us around \$60.00 a day just in wages. In Mexico this same laborer would earn around \$4.00 per day for the same amount and type of work. I have nothing against an individual being paid a fair wage. However in order to have fair free trade, all countries' laws are going to have to be relatively similar. At least 50% of our production cost is labor, as our crops are very labor extensive. The same product raised in Mexico can be raised for 1/3 of the cost. The large agribusinesses in this country will use this to their advantage and go south for production, thus driving many more small and medium size growers into bankruptcy. Mexico currently has such cheap labor that it is very similar to slave-labor.

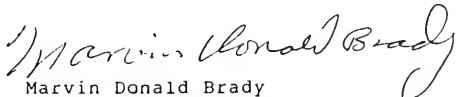
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Another big problem with NAFTA is the environmental regulations placed on farms in this country. In other countries in North America, chemical and environmental regulations are much less stringent, thus another advantage is given to producers wishing to export their product from their countries into the United States. If all growers are not treated as equals the large companies of the U.S. will control the food supply of America as the small grower will be cut out, over time.

In order for NAFTA to be fair and just, many changes will have to be made to U.S. agricultural policies. All farmers must be on even ground; no subsidies, equal wages, similar environmental and housing regulations, if NAFTA is to be functional.

Another item that needs to be worked on in the U.S. in order to assist all farms and make NAFTA successful is to develop a new and better crop marketing system. For example, the cabbage that we produce brings an average of 3 to 5 cents per pound in the field. This same cabbage is sold in retail stores for 29 to 36 cents per pound. There needs to be a system in place to remove the middle men so that the farmers can receive some of the difference between what he normally receives and what the retailer normally sells the product for. At the present time, there are 30,000 farmers a year, in the United States, going broke. Unless all of the items herein are to be corrected, there is no need to consider NAFTA. All farmers must have the same opportunities and thus be similar in order to make the NAFTA work. There needs to be some mechanism in place to determine the amounts of products necessary to be produced. There is no need in severe over production nor is there any need in using up our vital National Resources for no reason. We need to move into the 21st Century in a sensible manner.

I would like to thank you for your time and consideration in these matters.



Marvin Donald Brady  
President - Southwest VA Vegetable  
Grower's Association

(Attachments follow:)

## *Mexican Lobbies for Nafta Spend \$25 Million in U.S.*

*By a WALL STREET JOURNAL Staff Reporter*  
WASHINGTON — Mexican interests have spent \$25 million in the U.S. negotiating and promoting the passage of the North American Free Trade Agreement, according to a survey by the Center for Public Integrity.

The lobbying watchdog group estimates that the Mexican government and business will spend another \$5 million to \$10 million by the end of the year. Charles Lewis, executive director of the center, called those estimates "conservative." The figures are culled from records at the Justice Department.

Mr. Lewis estimated that Mexico has had on its payroll 33 former U.S. government officials. He also identified 45 congressional staffers who have taken trips to Mexico paid for by a Mexican business alliance, called Coece. The alliance has said it paid for 76 such trips.

The center didn't estimate how much opponents of the trade accord are spending on lobbying campaigns. But the report said that at a recent lunch, Texas billionaire Ross Perot indicated that he would be willing to spend \$25 million on television advertising if the agreement's supporters spent that much.

Mr. Perot plans his first TV commercial on the Nafta this Sunday.

Carroll County Democratic Committee  
P.O. Box 1107  
Hillsville, Virginia 24343



RESOLUTION TO ABOLISH U. S. GOVERNMENT FARM SUBSIDIES PROGRAM

At the February 2, 1993, meeting of the Carroll County Democratic Committee upon motion of Donald Brady, seconded by John Nichols, and approved unanimously by said Committee, the following resolution was passed:

THAT WHEREAS, the Committee considered the basic unfairness of the U. S. Government Farm Subsidies Program whereby many wealthy farmers receive huge farm subsidies, some being in the millions of dollars, while 30,000 farmers had debts called in by the Farmers Home Administration in the past year.

IT IS THEREFORE RESOLVED that this Committee expresses its concern about the basic unfairness of the Farm Subsidies Program and the Committee urges our representatives and elected officials to work to eliminate the Farm Subsidy Program as it now exists.

  
\_\_\_\_\_  
Gloria Haislip, Chairman

STATEMENT OF THE  
FLORIDA FRUIT & VEGETABLE ASSOCIATION  
U.S. HOUSE OF REPRESENTATIVES  
OCTOBER 19, 1993

Summary of Position

The Florida Fruit & Vegetable Association (FFVA or Association) opposes the North American Free Trade Agreement (NAFTA) as presently written. Fruit and vegetable growers, their workers and communities will be seriously harmed by it. Moreover, the side agreements will not adequately address the issues of importance to our growers. Attached please review FFVA's most recent Position Statement on this NAFTA.

During the course of negotiations, FFVA met with leaders in the current and prior Administrations and with leaders in Congress to get an agreement that would permit its growers to continue farming into the next century. Initially, FFVA requested (1) an exemption from tariff reductions or, at a minimum, a lengthy phase-out of tariffs for sensitive crops (20 years); (2) harmonization of environmental and labor standards between the growers in Mexico and in the U.S.; and, (3) a price and volume-based safeguard mechanism to protect growers against serious import surges during the transition period.

The Agreement contains no exemption for fruits and vegetables, nor does it contain a 20-year phase-out period. It does address in general terms environmental and labor standards in the side agreements, but there is no provision requiring the harmonization

of standards. Lastly, the Agreement contains a safeguard provision for only a few commodities, but this provision contains only a quantity-based snap-back mechanism which is not adequate for fruits and vegetables.

As written, including side agreements, this NAFTA will harm our growers and, until it is changed, we must oppose it.

### Background

Florida agriculture is a \$6 billion industry that provides wholesome, affordable food for consumers in the U.S. and around the world. More than 240 commodities 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 agriculture industry in Florida provides jobs for more than 250,000 people during peak production periods, and contributes strongly to the state's economy. It is the second ranked industry in the 4th most populous state in the country.

In February 1991, the U.S. International Trade Commission (USITC) found that producers and processors of winter fruits and vegetables were expected to experience losses in production and employment as a result of this Agreement. Subsequent studies have

confirmed these findings, including a recently released report by the Council for Agricultural Science and Technology (CAST). In April of 1991, Florida agriculture requested an exemption of import-sensitive, winter-produced fruits and vegetables, and citrus and their products from the NAFTA until such time as several serious concerns of the industry were meaningfully addressed and satisfied. A number of specific recommendations were made to mitigate the harm to Florida agriculture.

On August 12, 1992, President Bush signed the NAFTA concluding 14 months of negotiations with Mexico and Canada. Very few of the industry's recommendations were in the Agreement; in addition, some provisions which we were told were in the Agreement were deleted in the eleventh hour of negotiations. For example, we were assured that winter fruits and vegetables would be placed in the most sensitive category (C+). They were not. Since that time, FFVA, Florida's Agriculture Commissioner, and many other organizations have commented on the Agreement's failure to adequately address the concerns of the industry.

On December 17, 1992, President Bush signed the Agreement amid considerable criticism over the potentially great impact the Agreement would have on jobs, the environment, and selected industries, including agriculture. Following his inauguration, President Clinton proposed side agreements to the NAFTA to be negotiated in the area of the environment, labor and import surges.



In a letter dated March 11, 1993 (copy attached), 23 members of the Florida Congressional delegation wrote to President Clinton advocating the inclusion of 6 specific recommendations in the side agreements to assure that Florida agriculture does not disproportionately bear the burden of NAFTA. In a letter dated July 20, 1993, Ambassador Kantor replied to this letter noting that Florida will benefit from the NAFTA, but he (and the side agreements) failed to address even one of the recommendations made.

It is clear to us that negotiations to date have failed to meaningfully address Florida agriculture's concerns.

#### Injury to Florida Agriculture

Mexico is the largest foreign supplier of horticultural products to the United States. The U.S. International Trade Commission found in February 1991 that the elimination of tariffs (and non-tariff barriers) in a free trade agreement would generate "a significant increase in U.S. imports [of horticultural products]. . . ." Summary of USITC Inv. No. 332-297, "The Likely Impact on the United States of a Free Trade Agreement with Mexico," p. xi. The Report continues saying that "Mexican producers are able to supply the U.S. market with many of the same products grown or processed in the United States at much lower costs. This is particularly true for citrus crops and winter vegetables that are

manually harvested. U.S. growers of these products are expected to experience losses in production, particularly growers in Florida . . . who compete directly with products during the same growing seasons in Mexico." Id. at xi-xii. Florida's fruit and vegetable growers grow and market their products during the winter months in direct competition with Mexico. They are not complementary in any normal meaning of that word. Despite arguments to the contrary, Mexico's imports of fruits and vegetables do not supplement Florida's production. Florida could, fairly easily, expand its production of fruits and vegetables if Mexico was not in the U.S. market.

Several economists predict that 20% of the Florida tomato industry (approximately \$125,000,000) will be lost if the NAFTA went immediately and fully into effect and that 8,700 tomato workers would lose their jobs. Florida's Agriculture Commissioner has estimated the job loss for all of Florida agriculture to be 50,000 plus. Others have predicted greater harm. We believe the impact will fall hardest on the small, marginal growers. For some of the larger growers, the free trade agreement may be the "last straw" that will economically force them to take their operations to Mexico or at least offshore so that they can compete with Mexico without the heavy burden of U.S. governmental regulations.

There appears to be a concerted effort to downplay the importance of fruits and vegetables in general and the impact of

this Agreement on them. However, fruits and vegetables represent 25% of the consumer's food bill, and according to the Surgeon General and many others, they are highly recommended for a healthy diet. Fruits and vegetables are grown in every state, but they are concentrated in California, Florida and Texas. They are so important that California and Florida rank number 1 and 2 among all states in cash receipts from growing crops. Fruit and vegetables crops are not subsidized. In Florida alone they represent approximately one million acres of economic activity. We estimate 500,000 people are involved in Florida agriculture, considering field workers, truck drivers, packing house workers, mechanics, salespeople and others. These people will be harmed by this Agreement and the businesses and communities they work for and in.

At issue is the competitiveness of the American farmer operating in an industrialized country vis-a-vis the Mexican farmer operating in an economy only a fraction of ours. Our costs to operate in our system are great, as much as thirty percent of all our costs. Mexican growers do not pay such costs. The difference in costs is a subsidy to the Mexican growers which is not accounted for in this Agreement.

We are not suggesting there should not be an agreement with Mexico; we are suggesting that this Agreement is not acceptable to us and should not be acceptable to the Committee. Indeed, the fact that there are millions of people who violate the legal

relationships between Mexico and the United States clearly indicates that the people of our two countries want and need a new arrangement. However, such an arrangement should be acceptable to the people of both countries, not just selected businesses and industries. It should protect U.S. consumers, U.S. workers, and the communities in which they live. It should do the same for the people in Mexico. The proposed agreement does not accomplish these simple but fundamental goals.

#### Side Agreements

Mr. Chairman, the side agreements will not assist Florida's fruit and vegetable growers. For example, the harmonization of environmental and labor standards between the United States and Mexico definitely will not happen during the phase-in period of the Agreement. In addition, the import surge agreement provides only an "early-warning" system with no real help on damaging surges.

We are particularly concerned that the environmental and labor side agreements will not achieve their desired goals of ensuring that each party enforces its own statutes and regulations. This will give Mexican growers a tremendous, unfair, competitive advantage over our growers. The proposal will allow Mexico to maintain its present level of non-enforcement of environmental, labor, sanitary, phyto-sanitary, food safety, and other laws. The

heart of the proposal is to determine whether a party shows a persistent pattern of non-enforcement of its laws which is unjustifiable. None of these terms is defined. We submit to you that it will be impossible to prove such a claim. Moreover, and more importantly, these provisions appear intended to deal with actions that happen only after enactment of this Agreement. We submit to you that at this time Mexico does not enforce its laws and, under any ordinary reading of such language, would be in violation of such provisions. However, this apparently will not be addressed and, by not addressing it, our growers will be disadvantaged because they must compete with growers in Mexico who are subject to laws which are not enforced. Failure to achieve harmonization in this Agreement locks in an artificial competitive advantage for our competitors in Mexico. This is not equitable; nor is it right or even sound public policy; but, it is correctable. The Agreement must be changed to provide fair competition for our growers in our own market.

Safeguard Provision

We need a price-based safeguard provision in this Agreement. The volume-based mechanism currently found in the NAFTA cannot react quickly enough in response to volatile fruit and vegetable markets. We also are concerned that the mechanism will encourage groves to plant early so that their product can be marketed in the early part of the tariff window. This will likely cause depressed prices early in the season -- the opposite of its intended effect. A price-based safeguard, on the other hand, will provide a quick response to changing market conditions, and will not affect planting schedules.

U.S. Fruit and Vegetable Growers

As with many issues, the issues surrounding this Agreement are complex and difficult. Winners and losers have been identified and issues of agreement and disagreement also have been pointed out. Fruit and vegetable growers across the country fall on different sides on this Agreement. A number of commodity groups believe they will benefit by this Agreement and they are working to get it passed. On the other hand, there are many fruit and vegetable groups and others in agriculture who oppose this Agreement because they believe it will harm them. It is more than ironic and interesting that there are more and more groups speaking up and

opposing this Agreement. In fact, groups like the Wheat Growers are changing their positions once they analyzed how this Agreement will work or not work for them.

We believe the provisions in this Agreement and in the side agreements will not mitigate the harm to fruit and vegetable producers and their communities. In addition, we firmly believe this Agreement locks in an unfair competitive advantage and that this unfair advantage has neither been recognized nor addressed. We believe Congress is making a significant food policy decision in considering this Agreement. If it is passed, for the first time Congress will have determined that an important part of Americans' food should come from foreign countries. We don't believe we are overstating the case. The precedent this sets should not be taken lightly and without further debate.

#### Conclusion

Mr. Chairman, FFVA continues to have significant concerns about this Agreement and the proposed side agreements. We believe this Agreement will substantially harm Florida agriculture, and fruit and vegetable growers in particular, unless additional agreements are negotiated that harmonize labor and environmental standards, and provide adequate safeguard measures for all

perishable commodities. Until this is done, we will urge our Congressional delegation and the rest of Congress to oppose it.

We thank you for the opportunity to present our views.

WAS-20738



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**BEFORE THE HOUSE COMMITTEE ON AGRICULTURE**

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**RE: HEARINGS ON THE NORTH AMERICAN FREE  
TRADE AGREEMENT**

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**COMMENTS OF THE SWEETENER USERS ASSOCIATION  
ON THE LIKELY IMPACT OF THE NORTH AMERICAN  
FREE TRADE AGREEMENT ON THE U.S. SWEETENER ECONOMY**

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**Thomas A. Hammer  
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**October 7, 1993**

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**BEFORE THE HOUSE COMMITTEE ON AGRICULTURE**

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**RE: HEARINGS ON THE NORTH AMERICAN FREE  
TRADE AGREEMENT**

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**COMMENTS OF THE SWEETENER USERS ASSOCIATION  
ON THE LIKELY IMPACT OF THE NORTH AMERICAN FREE  
TRADE AGREEMENT ON THE U.S. SWEETENER ECONOMY**

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The Sweetener Users Association is pleased to have the opportunity to submit its views on the likely impact of the North American Free Trade Agreement (NAFTA) on the U.S. sweetener economy.

The Sweetener Users Association represents U.S. food and beverage manufacturers who are industrial users of sugar and other sweeteners, and the trade associations representing such companies. We support the sweetener and sweetened-product provisions that have emerged from the NAFTA negotiations. The Association is a member of Ag for NAFTA, a broad-based coalition representing the vast majority of U.S. farmers, ranchers and agribusiness firms, all of whom strongly support passage of the NAFTA.

**The NAFTA Agricultural Provisions**

The NAFTA calls for the elimination of all tariffs, quotas and licenses that act as barriers to agricultural trade between the United States and Mexico. There are no exceptions.

The NAFTA allows import-sensitive agricultural industries adequate time to adjust to free trade. The Agreement explicitly provides for a transition period of up to fifteen years before tariffs are eliminated for the most sensitive products.

The Agreement requires no changes in domestic farm programs for either country.

In keeping with the "no exception" mandate, all trade barriers on sugar and sweetened products eventually will be eliminated. Sugar, due to its import sensitivity, has been granted the longest transition — fifteen years. Moreover, tough rules have been

### NAFTA Sugar and Sugar-Containing Product Provisions

The Sweetener Users Association supports the sugar and sugar-containing product provisions of the NAFTA without change.

We do so for two reasons. First, the prospects for increased sales of sugar-containing products to Mexico as a result of the NAFTA are enormous. Second, the sugar provisions of the NAFTA, along with the supplemental agreement on import surges, afford significant protection to the domestic sugar industry during the fifteen-year transition period.

### Sugar-Containing Products

According to a recent Department of Agriculture study entitled "Mexico's Sugar Industry — Current and Future Situation," exports of sugar-containing products to Mexico will expand sharply as a result of a ten-year phaseout of the tariffs on manufactured food and beverage products which currently range from 10 to 20 percent, ad valorem.

This report projects total U.S. sugar-containing product exports to Mexico to reach \$2.2 billion in the year 2008. At the same time, Mexican sugar-containing product exports to the United States will only reach \$545 million. The table below graphically demonstrates that, therefore, there will be a significant net balance of trade of \$1.6 billion in favor of the United States by the end of the transition period.

U.S. Exports of Sugar-Containing Products to Mexico

<u>Item</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>Projected</u> <u>2000</u>	<u>Projected</u> <u>2008</u>
	--- Million dollars---				
Cocoa & chocolate products	32	47	53	225	480
Cereal & bakery products	23	30	67	400	850
Confectionery	18	20	23	50	105
Miscellaneous edible preparations	41	53	79	340	725
Total selected sugar-containing products	114	150	222	1015	2160
Imports of sugar-containing products from Mexico	73	85	96	250	545
U.S. trade balance	+41	+65	+126	+765	+1615

Source: "Mexico's Sugar Industry—Current and Future Situation," by Fred Kessell, Peter Buzzanell and Ron Lord, USDA, April 12, 1993.

### Raw and Refined Sugar

The NAFTA provisions relating to raw and refined sugar were among the most difficult parts of the Agreement to negotiate. The transition rules for sugar are the most unique and the most complicated of the entire range of products covered by the NAFTA. Raw and refined sugar are among only a very few sensitive products that will have a fifteen-year transition period. No other product is subject to the "net surplus producer" restriction during the transition period.

#### Transition Period: Years 1-6

In the initial six years of the Agreement, Mexico's sugar exports to the United States will be limited to its current export allocation of 7,258 metric tons. However, in any year that Mexico reaches net exporter status during the initial six-year period, it would be allowed access for its net exportable surplus, up to 25,000 tons.

During Years 1 through 6, the United States will reduce its second tier tariff on sugar imports from Mexico by 15 percent, from 16 cents per pound to 13.6 cents per pound.

#### Transition Period: Years 7-15

Beginning in Year 7, Mexico will be allowed to ship its net exportable surplus to the United States duty-free, up to a maximum of 150,000 tons. This ceiling will grow 10 percent per year over the remainder of the 15-year transition.

If Mexico reaches net exporter status for two consecutive years at any time during the transition period, beginning in Year 7 or the second year of net exporter status, whichever is later, it can ship its total exportable surplus to the United States duty-free.

Mexico will align its tariff regime with that of the United States by Year 7 of the Agreement, implementing a tariff quota with rates equal to those of the United States.

#### Economic Impact — Sugar

The net effect of these provisions is that Mexico cannot ship any more than 25,000 metric tons annually to the United States during the first six years of the

Agreement. This amount of sugar is statistically insignificant in comparison to the minimum 1.1 million metric ton (1.25 million short ton) annual import quota or the 8.3 million metric tons (9 million short tons) of sugar that are consumed each year in the United States.

Moreover, by the beginning of Year 7 Mexico must harmonize its external tariff on sugar imported from countries other than the United States. In essence, Mexico will form a "common market" with the United States on sugar by the beginning of the 7th year of the Agreement. This will tend to equalize sugar prices between the United States and Mexico and, consequently, offset the incentive for Mexico to export sugar to the United States, since there will be no price premium to be gained.

Even with these protective provisions, Mexico must become a net surplus producer in order to avail itself of additional export sales to the United States. There is significant debate as to whether Mexico is capable of producing more sugar than it consumes. Currently, Mexico is a deficit producer of sugar and most economists believe that that trend will likely continue for the foreseeable future.

Whether Mexico will become a net exporter is very difficult to predict. It will depend on a number of public policy and private investment choices in Mexico that are difficult to forecast. Numerous economic forecasts have been advanced on this subject. The USDA study referred to earlier states that it will require hundreds of millions of dollars of investment to modernize the Mexican sugar industry and achieve levels of efficiency required to be competitive. The study indicates that under the most optimistic conditions, including higher sugar production, decreased sugar consumption and HFCS substitution by the soft drink industry, Mexico may only have a net surplus of 800,000 tons by the year 2008.

We believe that the opening of the U.S. market to Mexico is unlikely to have any considerable effect on U.S. sugar producers. Even given the best case scenario described in the USDA study, this level of Mexican imports is still below total sugar quota imports and thus increased imports of Mexican sugar would simply displace imports of sugar from other traditional suppliers. This is not an ideal situation, but it represents another protection for domestic sugar growers unless the sugar program is changed as a result of legislation or an international agreement.

#### Supplemental Agreement on Import Surges

In addition to the significant safeguards that are built into the NAFTA sugar provisions, there is now also a supplemental agreement on import surges. While the significance of this supplemental agreement should not be overstated, it does

institutionalize a mechanism for dealing with sensitive products when imports enter the domestic market in such volume as to cause undue instability in the form of depressed market prices or declining employment in a particular industry. Also, a working group established under the agreement will review how well NAFTA's safeguard provisions are working and can make recommendations for revisions, as appropriate.

#### Memorandum of Understanding

In spite of the special provisions for sugar, the domestic sugar industry has proposed a number of changes designed to materially alter the basic provisions of the sugar agreement. Apparently, the sugar growers have requested our negotiators to conclude a memorandum of understanding with the Mexicans expanding the definition of "surplus producer" to include production and consumption of corn sweeteners.

We are greatly concerned that any changes at this time could threaten not only the sugar and sugar-containing product provisions but other elements of the Agreement as well. In the United States, sugar statistics only include sugar for supply and demand calculations. The inclusion of corn sweetener data for political purposes distorts the statistics and the intent of the Agreement.

If the sum of Mexico's sugar and corn sweetener production has to exceed the sum of its sugar and corn sweetener consumption in order for that country to be judged a "net surplus producer," then it is unlikely to ever qualify. Much of the corn sweetener will be imported from the United States and would appear in the consumption figure but not in production. Thus, Mexico would never achieve net exporter status and only the minimum quantity would be allowed to enter the United States during the transition period.

It is logical to predict that the Mexicans would not favor substantive changes to the sugar provisions. Irregardless of our assessment and that of many U.S. analysts, the Mexicans believe that they are capable of becoming a net exporter of sugar. Thus, any changes in the implementing legislation that would limit the value of this negotiated benefit would in all likelihood lead to a withdrawal of concessions on the Mexican side.

### Conclusion

The Sweetener Users Association supports the NAFTA sugar and sugar-containing product provisions, without change.

Based upon our assessment of the requirement that Mexico become a "net exporter" during the transition period, we do not believe that there is a significant threat that Mexico will flood the U.S. market with raw or refined sugar.

With respect to sugar-containing products, we are very optimistic about the opportunity to supply Mexico's growing demand for these products.

During the transition period, the supplemental agreement on import surges establishes an additional mechanism for consultation.

The removal of trade barriers to sweeteners and sweetened products under the North American Free Trade Agreement would have favorable economic effects on consumers, as well as on efficient sugar growers and processors, corn refiners and corn growers, and manufacturers of sweetened products and beverages. The U.S. sweetener industry is competitive and will grow and prosper in an economic environment less hindered by restrictions on trade.

Thank you for the opportunity to submit our views on this most vital issue.

STATEMENT OF NICHOLAS E. HOLLIS,  
PRESIDENT OF 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 significant growth in agricultural employment of 50,000 to 60,000 and more in agricultural-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 two percent per year, will result in increased demand for U.S. agriculture to supply food. Also, the limitation on available farm land 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 five years of the agreement, and for some products immediately, 65% 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 nontariff 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, i.e. 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.

## **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 Senate Agriculture 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.

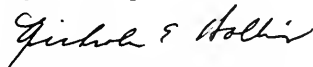
Nevertheless, we do not oppose the effort under way by U.S. Trade Representative Mickey Kantor to negotiate more favorable terms with Mexico for sugar and fruits and vegetables. (Inside U.S. Trade, August 6, 1993, at 1)

**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 House approval of the NAFTA agreement and its implementing legislation, subject to the supplemental agreements concluded on August 13, 1993, on environmental and labor standards and import surges.

Respectfully submitted,



THE AGRIBUSINESS COUNCIL  
Nicholas E. Hollis,  
President

Prepared by:

Todd C. Fineberg  
Special Counsel to  
The Agribusiness Council  
202-434-8760



October 20, 1993

The Honorable Kika de la Garza  
Chairman  
House Committee on Agriculture  
1301 Longworth House Office Building  
Washington, D.C. 20515

Dear Chairman de la Garza:

The American Feed Industry Association (AFIA) commends your leadership in convening hearings relative to agriculture's perspective and recommendations on the North American Free Trade Agreement (NAFTA). We respectfully request that these views be included in the House Committee on Agriculture's hearing record of October 19 on agricultural issues involved in NAFTA. We also request that these comments be included in all subsequent hearing records where you believe they have relevance.

AFIA is the national trade association representing the manufacturers of more than 70% of the commercial livestock and poultry feed sold annually in the U.S. AFIA's membership also includes feed ingredient suppliers, the animal health industry, equipment manufacturers, and several large integrated poultry and livestock producers, as well as companies providing goods and services to the domestic feed industry.

Annually the feed industry purchases \$15-18 billion worth of feed grains and oilseeds, making it the largest single buyer of those domestic crops. It is also one of the most competitive manufacturing industries in the world, with no single domestic company controlling more than about 10% of total domestic sales.

AFIA has long been a strong supporter of unrestricted world trade. It is our belief that open market competition is the key to growth for our industry, and foreign trade represents perhaps the greatest potential for that growth.

AFIA is unique among U.S. animal agriculture industries in its first-hand experience with current and potential Mexican markets. AFIA, recognizing new market development is key to the domestic industry's continued competitiveness, identified the Latin American/Mexican market as having the greatest immediate potential for expansion several years ago.

Capitalizing on this potential, AFIA sponsored in October, 1992, the first U.S. feed industry trade show ever held in Mexico. AFIA's "Mexico '92," held in Guadalajara, attracted 180 exhibitors from five countries, with 160 U.S. companies, representing feed manufacturing, equipment, ingredients, animal health products and related industry services, participating. "Mexico '92" hosted over 3,000 buyers over its four-day run.

This highly successful effort is the best evidence of the eagerness with which the U.S. feeding industry views Mexican market potential. However, perhaps more significant was the enthusiasm demonstrated by Mexican government and industry officials. AFIA has already scheduled a second Mexican show for spring, 1994, and will hold subsequent shows in even-numbered years for the foreseeable future.

#### **BENEFITS OF NAFTA**

An informal survey of AFIA member companies with experience doing business with Mexico indicates strong support for an agreement that could yield \$1.5-2 billion annually above export levels expected without the agreement, with sales of grains, oilseeds, dairy and meat expected to increase most dramatically. In addition, significant opportunities for expanding both trade and investment over time make the NAFTA attractive to our member companies.

It is generally not well known that Mexico is the third largest market for U.S. agricultural products, and with a young, growing population and a new-found--and hopefully, long-term--commitment to policies of economic growth and reduced debt-load, Mexico has become the fastest growth market for U.S. agriculture, increasing at twice the rate of the rest of the world.

#### **MEXICAN FEEDING TRENDS**

Given the Mexican government's commitment to improving the standard of living for its population overall, including diet, the U.S. feed industry sees positive trends emerging in cattle, swine and poultry production due to the NAFTA, benefiting the U.S. feed industry generally. The following represent some "snap-shot" analyses of how NAFTA will affect the U.S. feed and feeding industries:

**CATTLE:** The smallest shift should come in the cattle segment. Mexico's temperate climate, coupled with its ability to rely on grass feeding, should keep Mexican cattle feed markets relatively flat, even while Mexican beef consumption is expected to grow 10% by 1998.

**SWINE:** Major increases are predicted in Mexican pork production, which will signal related increases in feed manufacturing and meat processing. This expanded manufacturing/processing trend is expected to occur both in Mexico and U.S. border states, as duties for mixed feeds, live animals and processed pork products decline over time.

Feed plant location will ultimately be determined by relative ingredient costs compared with the cost of distribution to central and southern Mexican markets. At the same time, consideration will be given to swine product export markets and the balance of trade with non-NAFTA nations.

**POULTRY:** The poultry feed segment will likely not shift production to Mexican facilities, but major production increases should occur in the western and southwestern U.S.,

bolstered by considerable capacity in the southern U.S. The same is likely within the processing segment of the industry.

Some feed industry experts contend that while poultry consumption within Mexico will dramatically increase as the population's standard of living improves, actual Mexican production will drop. This is due to high protein requirement of the poultry diet and the low-cost structure of the U.S. grains.

#### **FACILITY/EQUIPMENT MARKET EXPANSION**

AFLA member companies which design and sell equipment expect an overall increase in purchases of equipment as NAFTA stimulates a net increase in consumption both from NAFTA partners and from non-NAFTA countries.

Mexican purchases will allow addressing current feed processing and animal production inefficiencies over time as facilities are forced to upgrade in order to compete.

U.S. commodity prices, if they remain relatively low, will allow deeper penetration into the Mexican market as transport costs are off-set by lower ingredient prices. This may work as an incentive to create U.S.-Mexican joint-ventures within Mexico, but more likely a greater trend toward U.S.-owned facilities as duties slowly disappear over time. NAFTA allows U.S. and Canadian companies to acquire or establish ventures in Mexico and to receive essentially identical treatment as domestic firms.

#### **LABOR/ENVIRONMENTAL ISSUES**

While the Administration's questions relative to issues of health, safety, labor and environmental impact are well-known, the implementing legislation--and whatever side agreements are worked out with concerned interests--will address specific safe-guards to build on provisions included by NAFTA negotiators.

It is encouraging that while the NAFTA includes provisions preserving existing U.S. labor/environmental standards, it allows the flexibility for all three NAFTA member nations to impose stricter conditions based upon scientific principles, while limiting their application and avoiding discriminatory effects. Further, upward harmonization of standards to enhance labor and environmental protections is also provided for.

It is important NAFTA recognize the need to use science-based standards for resolution of health and environmental disputes which may arise. It is also encouraging negotiators recognized the need for a single forum for technical dispute resolution, eliminating the multiple venue option which has dogged the General Agreements on Tariff & Trade (GATT) since its inception.

In the labor arena, most concerns are currently based upon speculation that U.S. jobs will shift automatically and immediately given the relatively low hourly wage rates prevailing in Mexico.

While most projections show the NAFTA will mean a net increase in jobs in the U.S., some industries will face the risk of job loss, particularly at the low end of the pay scale. An intelligently planned job retraining program must be an important part of the NAFTA implementation package to all capture of NAFTA benefits while absorbing some of the adjustments some industry segments may face.

However, it must be recognized that over time, as Mexican businesses gain freer access to U.S. and Canadian markets, the NAFTA will create jobs, accelerate improvement in the standard of living, and should work to raise average, overall wage rates. This will obviate the wage incentive most NAFTA critics fear will result in irretrievable U.S. job losses.

In the U.S. feed industry, labor costs in some production areas will be a minor consideration in locating new or expanded facilities, e.g. the poultry segment. Over-all, the immediate trend expected would be the creation of new jobs in the western and southern tiers of the U.S., as companies enhance feed manufacturing capabilities to serve the expanding Mexican market.

For U.S. feed companies which joint venture with Mexican interests or for U.S.-owned affiliates which capitalize on the growing Mexican consumer demand for meat, milk and eggs, employment in U.S. supplier companies will likely be enhanced as demand for equipment, premixes, supplements, concentrates and other feed nutrient packages are more heavily relied upon.

#### SUMMARY

As shown, AFLA generally sees a net positive effect from the NAFTA. Benefits which will derive specifically to AFLA member companies include the following:

- o 45% of the current \$5.5 billion in trade is subject to quotas declining over the next 15 years. Mixed feeds currently move at a 10% tariff into Mexico which will be eliminated over 10 years. One disadvantage is that corn and sorghum currently are blended and move to Mexico as "mixed feed" from the U.S.;
- o The U.S. currently exports several feed ingredients to Mexico, including midds, processed meat meal, wheat, corn, sorghum, soybean, etc. It is expected the agreement will allow the export of an additional 4.5 million tons of feed grains to Mexico during 1994;
- o U.S. industry sees increased Mexican demand for pork and poultry, meaning increased demand for feed products. Cattle feed demand should be relatively stable;
- o Much of the related economic activity from expanding U.S. exports will occur in rural America, especially the South, Southwest and West, where the need to expand the job base is acute. This will likely include expansion of both feed manufacturing and meat processing facilities;

o The enhanced Mexican demand for feed/feed products based upon the rising demand for meat, milk and eggs, signals a growing market for U.S. feed manufacturing and meat processing equipment;

o Since the NAFTA allows for nearly identical domestic treatment of U.S.-owned or U.S.-Mexican joint ventures as for domestic companies, investment opportunities in these operations will increase;

o Mexico is currently the eighth largest host country for U.S. food processing affiliates, with most of these affiliates producing for the Mexican market, generally using U.S.-produced ingredients. Demand for both the processed product and domestic ingredients should increase with the NAFTA;

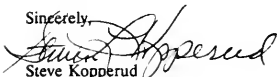
o While the NAFTA provides strong health, safety, labor and environmental standards, it also allows for stricter standards to be developed by member countries, and for harmonization over time. Health, safety and environmental standard disputes are to be resolved using scientific principles in a single forum;

o Implementation legislation, and the side agreements, allow for development of specific problem solutions, such as low-wage job retraining.

While these comments convey AFIA's general support for the NAFTA as negotiated, we look forward to working with the Committee during the hearing process on the implementing legislation that will accompany the treaty.

AFIA appreciates the opportunity to comment, and the Committee's consideration of our views.

Sincerely,

  
Steve Kopperud  
Senior Vice President



Testimony by Alexander Kronhout

Page #1

Mr. Chairman and members of the House Agriculture Committee, my name is Alexander Kronhout. I am writing to you as President and Chief Executive Officer of Farm Credit of South Florida, Agricultural Credit Association (ACA). Farm Credit of South Florida, ACA is part of the Farm Credit System and as such, provides agricultural and rural resident financing to over 750 member-stockholders in the South Florida region. As an cooperative owned Agricultural Credit Association holding over \$257,000,000 in loan assets, we are keenly concerned over the North American Free Trade Agreement with proposed side agreements included and its ultimate impact on our member - stockholder - borrowers.

We feel the previous testimony provided to your committee representing the Farm Credit System presented by Douglas D. Sims, President and COO of Co-Bank, National Bank for Cooperatives, Mr. Terry Fredrickson, President of Agri-Bank, and Mr. Bill Weber, President of Farm Credit Council, on October 19, 1993 could easily be misconstrued as a favorable vote for NAFTA, and further, it did not necessarily address the issues at hand. The group who testified before your committee did ably point out how the Farm Credit System needs to change and have new authorities granted to it in order to help further the cause of American farmer to compete in an ever changing global economy.

I submit my written comments to the House Agriculture Committee to help keep in perspective the concerns of South Florida's farmers and the potential adverse impact NAFTA may have on Florida's \$6 billion dollar agricultural industry, and hence, ultimately Farm Credit of South Florida, ACA. Attached, as information, is a copy of Farm Credit of South Florida, ACA's Board of Directors resolution which clearly points out the concerns of our farmer-customer base here in South Florida. To ask our farmers here in South Florida to accept NAFTA at their expense is hard for them to accept. South Florida's agriculture, in virtually every commodity, competes directly with Mexican farming head on. South Florida's farmers are among the world's most efficient, but they can not be asked to do the impossible. If NAFTA, in its present form with the proposed side agreements is passed, will create a situation where Mexican farmers will have a clear and unfair competitive economic advantage. NAFTA and its proposed side agreements do not adequately address or protect South Florida's farmers against unfair cheap unrestricted-unprotected Mexican labor, nor the reckless waste and abuse of natural resources used, and in many cases subsidized by the Mexican government, which will further harm the world environment.

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Testimony by Alexander Kronhout

On October 14, 1993 I was asked by Nora Matus of Congresswoman Carol Thurman's office to come to Washington and present testimony to your committee. I did not come because of a scheduling conflicts. But, as I read the testimony of the three Farm Credit Representatives present, I feel compelled to write and offer you my views. I have presented NAFTA testimony to Congress in the past on two previous occasions. A copy of this testimony is attached for your review for I still strongly feel the issues at hand are still present and are applicable and therefore, require your further consideration in your committee's deliberations on the pending NAFTA legislation.

The anti-NAFTA campaign is well spearheaded by virtually every Florida Ag. Commodity group in the state. NAFTA will not only damage Florida's agricultural industry (\$2 Billion Dollars worth per research done by the University of Florida and others), but it will also pull down the entire U.S. economy as American labor is forced to reduce itself to competing with cheap unprotected Mexican labor with a significantly lower standard of living. American capital by economic equation will automatically flow out of the U.S. to Mexico at accelerated rates as businesses seek to lower manufacturing and processing costs. Abuse will develop as non-pact countries try to access the U.S. market through Mexico.

The combination of tough Mexican business and single party politics has proven in the past to have violated virtually every know U.S. labor and environmental protective law. Sure, NAFTA will create jobs, but more low paying unskilled jobs will be created than high paying skilled jobs. America and the U.S. citizens you represent deserve more! Unfortunately, most of your constituents will not understand NAFTA until after your vote is in. Their standard of living, and their jobs depend on you doing the right thing.

Please vote AGAINST NAFTA!

## NAFTA RESOLUTION

WHEREAS, Farm Credit of South Florida Agricultural Credit Association (FCA) is cooperatively owned and does business with well over 700 South Florida acres (farmers); and

WHEREAS, the farming industry and its related processing and marketing of raw farm products is considered to be extremely important to the economies of Florida and the United States; and

WHEREAS, many of South Florida's crop prices and product movements are currently suppressed due to poor domestic and world economic circumstances hurting the demand for raw farm products; and

WHEREAS, many South Florida farmers are presently faced with rising costs of production and doing business which can not be passed on to consumers; and

WHEREAS, South Florida farmers are already being subjected to significant foreign competition originating through the Caribbean Basin Initiative (CBI) in the domestic and world marketplace; and

WHEREAS, in spite of the possible advent of the North American Free Trade Agreement, many South Florida farmers will be subjected to even more and insurmountable unfair competition in the U.S. domestic marketplace from Mexico and possibly other countries through shipments; and

WHEREAS, over the past four years, the number of acres of farm land in Mexico has increased remarkably as a result of direct government support and subsidies, and the volume of Mexican farm products exported has increased proportionately upward as well. As a result, all are competing against U.S./Florida farm products on both the domestic and international markets; and

WHEREAS, the Florida citrus, vegetable, sugar and ornamental nursery industries all have fought unfair low import pricing in recent years due to foreign subsidization and less-than-fair-value sales; and

WHEREAS, the U.S. International Trade Commission has determined that, as a consequence of any Free Trade Agreement between the United States, Mexico and Canada, under which import duties would be eliminated, U.S./Florida farmers are expected to experience serious irreversible losses in production, particularly growers in Florida, California, and other warm-climate states who compete directly with Mexico; and

WHEREAS, the economy of Mexico offers little or no offsetting export market opportunity for Florida and other U.S. producers of citrus, winter vegetables, sugar and ornamental nursery products nor so in the future; and

WHEREAS, many South Florida farmers are continually being subjected to ever more stringent government rules and regulations controlling their business use of pesticides and chemicals, use of water as to control and quality, use of and management of their lands, protection of endangered species and habitats, labor right to know laws and other labor/safety protection regulations, and many other business and environmental considerations none of which are adequately addressed or equalized in the North American Free Trade Agreement legislation is currently proposed with its supporting side agreements on labor and the environment to provide for a level playing field between U.S./Florida and Mexican farmers; and

WHEREAS, without adequate side Agreements for labor and environmental issues still lingering, many South Florida farmers will be forced to compete on an inequitable basis resulting in their eventual economic viability and hence their future capacity to deliver to the American public a secure, safe and inexpensive source for reliable food; and

THEREFORE, BE IT HEREBY RESOLVED, that Farm Credit of South Florida, Agricultural Credit Association and its cooperative agricultural membership go on toward opposing the North American Free Trade Agreement as now negotiated and drafted for final consideration for Congressional approval; and

BE IT FURTHER RESOLVED, that Farm Credit of South Florida, Agricultural Credit Association and its cooperative agricultural membership firmly oppose the elimination of or the reduction of U.S. import duties and tariffs on citrus and related processed citrus products, winter vegetables, sugar and ornamental nursery plants, when imported from Mexico or currently provided for in this agreement; and

NOW, THEREFORE, BE IT FURTHER RESOLVED, that Farm Credit of South Florida, Agricultural Credit Association and its cooperative agricultural membership urge the United States Trade Representative, the President, and the Congress of the United States of America to exclude all such noted farm products from any list of articles eligible to receive duty-free or reduced-duty treatment status upon importation from Mexico under the North American Free Trade Agreement.

Agreed to and certified this 29<sup>th</sup> day of September 1991.

Louis E. Lacey  
Louis E. Lacey Jr., Chairman of the Board of Directors  
Farm Credit of South Florida, Agricultural Credit Association

ATTEST:

Linda Kuznetsov  
Linda Kuznetsov, Secretary  
Farm Credit of South Florida, Agricultural Credit Association



## NORTH AMERICAN FREE TRADE AGREEMENT

U. S. House of Representatives  
October 19, 1993

James Earl Mobley

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Mr. Chairman, I am James Earl Mobley, Chairman of the National Peanut Growers Group, a voluntary association of the countries' various Peanut Producers Associations, and Peanut Marketing Associations. Once again, I would like to thank you for your personal attention to the needs of the Peanut Producers of this nation.

The peanut producers of this nation view this as perhaps our last opportunity to express our concern to this North American Free Trade Agreement in its present form. Through your indulgence, we have repeated our concerns before this Committee on numerous occasions. In fact, we have the feeling that you and the Members of this Committee have provided peanuts our most consistent forum to present our views on this Treaty. To date nothing that we have seen or heard has altered our view that if enabling legislation is passed by the Congress, that the slope of the trading platform will be tilted against American peanuts.

Throughout the NAFTA debate we have expressed our firm belief that the expansion of trade was desirable and needed if this nation was to manage its economy and keep our nation moving in a positive direction. However, we have insisted throughout that the rules of trade must be fair and equitable for all parties, that negotiations be carried out in the open and that all affected parties have access to the process. We do not feel that these criteria have been met for peanuts.

Mr. Chairman, we have asked repeatedly for an impartial government analysis of the economic and social impact of the NAFTA Treaty on the small, rural communities in the South - namely those communities which are dependent on the production and processing of peanuts, cotton, and the manufacture of apparel. We have seen no such analysis.

We have commissioned independent studies, and the authors of those studies are on record before this Committee. They conclude that the adoption of tariff rate quotas in NAFTA will provide Mexican peanut producers an economic advantage over domestic U. S. peanuts within three years, not the fifteen years allocated to normalize markets and minimize the impact on American communities. (

We understand the Mexican Government has recently revised its farm subsidies program, decoupling their program to produce corn and other commodities and replacing it with a basic payment for agricultural land. In our view, this policy change would have the effect of providing an additional stimulus for increased Mexican production of peanuts. USDA projections show that Mexico will not increase peanut production, but that they will continue to import peanuts from the U. S. We do not believe that the USDA analysis is reasonable. With decoupled subsidies and U. S. corn and soybeans displacing Mexican productions, it is inevitable that Mexican farmers will shift to the production of other commodities such as peanuts which will have advantage of the low tariffs to penetrate U. S. domestic markets.

Peanut farmers have expressed this concern based on the effect of the Canadian Free Trade Agreement. The North American Free Trade Agreement will couple with the effect of the CFTA and the combination could devastate the domestic internal U. S. markets. The combination of Mexican and Other Origin (Chinese, Argentine, etc.) peanuts would gain an increasingly greater share of our markets, displacing American peanuts and American farmers. History is a strong indicator that these are real fears. At the time that the CFTA was signed, imports of Peanut Butter into the U. S. allowed by the Exemption to Section 22 with tariffs was less than one million pounds. Over the 12 month period ending July 31, 1993, imports of peanut butter from Canada totaled over 28 million pounds, displacing over 25,000 tons of U. S. peanut production. During the first 7 months of 1993, we have imported over 17 million pounds of peanut butter through Canada. In the same period the U. S. has exported 10 million pounds to Canada.

It should be noted here that U. S. law provides penalties for the re-importation of U. S. additional peanuts. NAFTA provides the same protection assuring that only Mexican grown peanuts would be imported into the United States. This should be restated in enabling legislation. However, we fear that even these assurances to American peanut farmers may be inadequate, when we consider that there is no way to detect the origin of peanuts in a jar or peanut butter, or that U. S. Customs already has a difficult task in enforcing U. S. law. Enabling Legislation should spell out the minimum requirements for inspection and enforcement.

In addition to these real fears, peanut farmers feel insecure because there are provisions allowing other nations to join the NAFTA Agreements. This expansion is desirable and we support it. However, we would ask that any nation attempting to join Canada, United States and Mexico under the Rules of the Treaty should do so only after all terms of accession are fully negotiated under the terms of a new bilateral treaty, and respectfully request that this restraint be included in the enabling legislation.

We have expressed concern that peanuts from other origins, including Mexico are produced employing production methods and other practices which are banned or suspended voluntarily from use under environmental and food safety constraints in the United States. We understand that the Sanitary and Phytosanitary Standards prescribed under the treaty must have scientific validity, and have been assured by the Administration that the conditions required for U. S. peanuts will be required for any imported peanuts or peanut products. Again, however, we are not convinced that there is adequate enforcement available to enforce these provisions. Our evidence for this is graphically illustrated by the discovery of peanut butter manufactured in Argentina and imported into U. S. markets which contained high levels of the carcinogen, aflatoxin. This product was discovered on the shelves of stores in the Southeast.

Mr. Chairman, thank you for your indulgence and for your help. We feel that the domestic peanut program is a model for an agricultural supply management program which provides for the well being of farmers and provides a reliable supply of wholesome, nutritious, and safe farm commodities. We are comfortable that this committee is sympathetic to this view, and ask one more time to help us assure consideration of our concerns.

AMERICAN  
FOREST &  
PAPER  
ASSOCIATION

TESTIMONY OF  
MAUREEN R. SMITH  
INTERNATIONAL VICE PRESIDENT  
AMERICAN FOREST AND PAPER ASSOCIATION  
ON  
THE NORTH AMERICAN FREE TRADE AGREEMENT  
BEFORE THE  
U.S. HOUSE COMMITTEE ON AGRICULTURE  
WASHINGTON, D.C.  
OCTOBER 19, 1993

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Thank you, Mr. Chairman, for the opportunity to testify on the importance of the North American Free Trade Agreement (NAFTA). I am here today representing the American Forest and Paper Association (AFPA), an organization with approximately 550 member companies and related trade associations (whose membership is in the thousands). Our members grow, harvest, and process wood and wood fiber; manufacture pulp, paper and paperboard products from both virgin and recovered fiber; and produce solid wood products.

As a single national association, AFPA represents a vital national industry which accounts for over 7 percent of the total U.S. manufacturing output. The forest and paper products industry generates sales of \$200 billion annually. With exports of \$17 billion (\$10.3 billion in pulp and paper; \$6.7 billion in wood products) in 1992, the industry makes an important contribution to the U.S. balance of payments.

The Importance of Exports to the Forest Products Industry

Exports are vital to this industry. For the last five years, the growth in export sales has outpaced the growth in domestic shipments for both paper and wood products.

- o In the wood sector, exports have served as the major engine of growth, increasing 154 percent since 1985.
- o For the paper industry, exports accounted for 60 percent of the growth in paper, paperboard, and market pulp production during the five year period from 1987 through 1992.

To maintain this impressive rate of growth, our industry is committed to aggressively developing world markets, and supporting initiatives by our government which level the international playing field.

Canada and Mexico are among the priority world markets for our exports.

- o For 1992, paper sales to Canada totalled \$1.8 billion, to Mexico, \$1.3 billion. Together, these two countries accounted for 30 percent of all U.S. paper exports.
- o In 1992, U.S. exports of solid wood products to Canada amounted to over \$1 billion; to Mexico, \$510 million, together accounting for about one quarter of U.S. wood exports.

Mexico represents a rapidly growing market for the U.S. forest products industry. Since Mexico began to liberalize its economy, and reduce its tariffs on forest products in 1985, U.S. paper industry exports to Mexico increased 183 percent from \$450 million to \$1.3 billion in 1992. During the same time period, U.S. wood products exports rose 589 percent from \$74 million to \$510 million, making Mexico the third largest export market for our forest products. In fact, the nearly sevenfold increase in wood products to Mexico, as compared to the worldwide doubling of total wood products exports during the same period, exemplifies the enormous growth potential and importance of the Mexican market.

#### AFPA Supports NAFTA

The American Forest and Paper Association strongly supports the NAFTA. Our ability to sell into the Mexican market will be enhanced both directly and indirectly:

Tariffs: NAFTA provides for the elimination of Mexican tariffs on paper and wood products. (U.S. tariffs on Mexican products are already at or near zero.) For paper goods, Mexican tariffs will be eliminated on major primary export grades within five years. For wood products, the immediate elimination of the tariff on several product lines including softwood lumber for wood frame construction is beneficial. We hope that longer staging periods for some wood products can be accelerated as the Agreement goes into effect.

Non-Tariff Barriers: NAFTA will eliminate many non-tariff barriers in Mexico, including quotas, import licenses, and transportation obstacles. Their elimination will facilitate exports of U.S. forest products to the Mexican market. NAFTA also provides for an effective dispute settlement procedure.



Government Procurement: The opening of the Mexican public procurement market in areas such as construction represents a significant addition to the potential market for our products.

Indirectly, sales of U.S. forest products will benefit from economic growth and demand for packaging materials associated with increased exports of other U.S. domestic industries.

#### Jobs in the Forest Products Industry

NAFTA supporters and detractors alike have focused on the potential impact on U.S. domestic employment. In our industry, we expect the agreement will actually protect the U.S. domestic employment base.

The U.S. forest products industry employs some 1.4 million people, and ranks among the top 10 employers in 46 states, with an annual payroll of about \$46 billion. Particularly in the paper industry, these are primarily high-tech, high-paying jobs. For example, the average paper mill worker earned \$15.56 per hour in 1991.

As many of you know who have our facilities in your districts, these are frequently located in rural areas where alternative employment opportunities are very difficult to create. (Of the 26 states represented on the Agriculture Committee, 23 have wood or paper facilities.)

Export growth means job growth for our companies, our workers and our industry. The fact that our industry's share of manufacturing employment has risen in the past five years is linked to our strong export performance during that period. U.S. paper exports to Mexico support 34,000 direct and indirect jobs; wood exports add an additional 18,500 jobs, producing a total of over 50,000 direct and indirect jobs in the U.S. economy. And we expect job opportunities in our industry to increase substantially as exports grow under NAFTA.

NAFTA will not take these jobs south. With a consistent record of capital investment and state-of-the-art production facilities, the forest products industry is keeping jobs in the U.S. This industry now represents a higher percentage of domestic manufacturing jobs than in 1980.

This is one of the most capital intensive industries in America. These state-of-the-art facilities are here to stay. The only thing that will be moving to Mexico from the forest products industry will be increased exports as tariff barriers are erased.

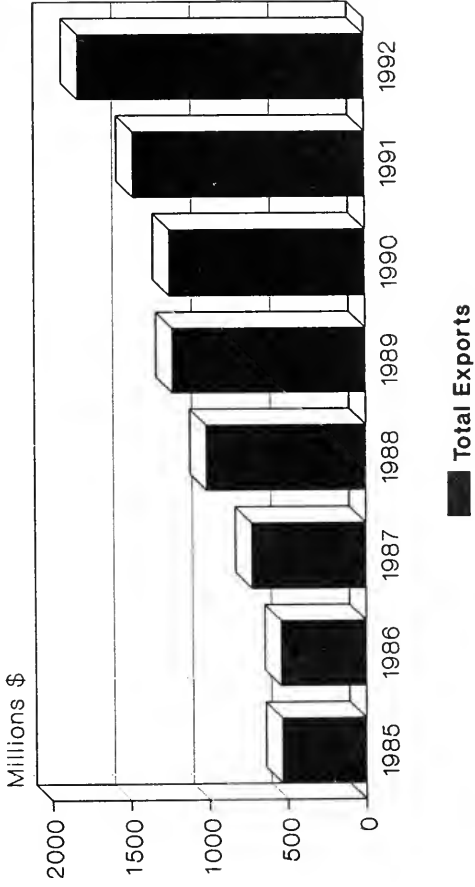
In summary, Mr. Chairman: NAFTA will eliminate tariffs on forest products exports to Mexico and Canada, two of the fastest-growing world markets for our industry. Without NAFTA, some companies may be persuaded that a move to Mexico is justified as a means of getting in behind the tariff wall. With NAFTA, the incentive to move our production is eliminated. Moreover, the disincentives of high capital cost and relative immobility of the resource base means that forest industry production to serve the Mexican market, and the jobs associated with that production, will stay in the United States and grow in the United States.

In closing, it is the view of the U.S. forest products industry that NAFTA is a "win-win" proposition which merits favorable action by this Congress.

# # #

(Attachments follow:)

# TOTAL U.S. FOREST PRODUCTS EXPORTS TO MEXICO 1985-1992



Includes Wood & Paper Industry Exports  
Source: U.S. Dept. of Commerce

**LIST OF WOOD PRODUCTS INDUSTRY COMPANIES AND  
ASSOCIATIONS WHICH SUPPORT  
THE NORTH AMERICAN FREE TRADE AGREEMENT**

Associations representing the wood products industry with a combined representation of over 7,000 companies with operations in all 50 states support the North American Free Trade Agreement (NAFTA):

<u>Association Support</u>	<u>Number of Members</u>
American Forest & Paper Association	
Company members:	425
Association members:	54
American Hardboard Assn.	15
American Hardwood Export Council	80
American Ins. of Timber Construction	427
American Plywood Assn.	53
American Walnut Manufacturers Assn.	13
Appalachian Hardwood Manufacturers	169
Fine Hardwood Veneer Assn.	34
Hardwood Manufacturers Assn.	115
Hardwood Plywood Manufacturers Assn.	163
Illinois Hardwood Export Assn.	11
National Hardwood Lumber Assn.	1200
National Wood, Window and Door Assn.	141
Northeastern Loggers' Assn.	2343
Southern Forest Products Assn.	198
Southeastern Lumber Manuf. Assn.	510
Penn-York Lumberman's Club	261
Walnut Council	650
Western Red Cedar Lumber Assn.	17
Western Wood Products Assn.	225
<b>TOTAL</b>	<b>7104</b>

Partial List of Company Support for NAFTA:

Abenaki Timber Corp.	W.Springfield	NH
Anderson-Tully Co.	Memphis	TN
Augusta Logging Exporters, Inc.	Staunton	VA
Averitt Lumber Co.	Clarksville	TN
Baillie Lumber Co., Inc.	Hamburg	NY
Blaney Hardwoods	Barlow	OH
Boise-Cascade	Boise	ID
Bradford Forest Products	Bradford	PA
Cardinal Trading, Ltd.	Portland	OR
Cedar Shake & Shingle Bureau	Bellevue	WA
Coastal Lumber	Weldon	NC
Cole Hardwood Inc.	Logansport	IN

Contact Lumber	Portland	OR
David R. Webb Co., Inc.	Edinburgh	IN
Emerson Phares Lumber Co.	Elkin	WV
Fitzpatrick & Weller, Inc.	Ellicottville	NY
Freeman Corp., The	Winchester	KY
Friedman Hardwoods	Columbus	OH
Georgia-Pacific	Atlanta	GA
Germain Timber Co.	Pittsburgh	PA
Gutchess International Inc.	Cortland	NY
Hanafee Bros. Sawmill Co. Inc.	Troy	TN
Hancock Lumber	Casco	ME
Hoosier Timber	Indianapolis	IN
Interforest Corp.	Durham, Ontario	
International Paper	New York	NY
International Veneer Co. Inc.	South Hill	VA
J.M. Jones Lbr. Co. Inc.	Natchez	MS
J.W. Jones Lumber Co.	Elizabeth City	NC
Kitchen Brothers Mfg. Co.	Hazlehurst	MS
Louisiana Pacific	Portland	OR
Matson Wood Products	Brookeville	PA
Michigan-California Lumber	Camino	CA
Midwest Lumber & Dimension Inc.	Floyd Knobs	IN
Monadnock Forest Products, Inc.	Jaffrey	NH
Monticello Hardwood, Inc.	Monticello	MS
Neff Lumber Mills, Inc.	Broadway	VA
Nicolet Hardwoods	Laona	WI
Norstam Veneers Inc.	Mauckport	IN
Northland Forest Products	Kingston	NH
North Pacific International	Portland	OR
North Pacific Lumber Co.	Portland	OR
O'Shea Lumber Co.	Glen Rock	PA
Owens Forest Products	Duluth	MN
PFS Corp.	Madison	WI
P.W. Plumly	Winchester	VA
Pierson-Hollowell Co.	Lawrenceburg	IN
Plum Creek Timber Co.	Seattle	WA
Pope & Talbot	Portland	OR
Prime Lumber Co.	Thomasville	NC
R.C. Services	Philadelphia	PA
Rajala Companies	Deer River	MN
Schmid Lumber Co. Inc.	Indianapolis	IN
Shannon Lumber International	Memphis	TN
Snively Forest Products Inc.	Pittsburgh	PA
South-Central Timber Development	Anchorage	AL
Stimson Lumber	Portland	OR
T & S Hardwoods	Milledgeville	GA
Taylor Lumber, Inc.	McDermott	OH
Taylor-Ramsey Corp.	Lynchburg	VA
TECO	Madison	WI
Tex-O-Cal Hardwoods, Inc.	Temple	TX
Timber Products Co.	Medford	OR
Tradewest Hardwood Co.	Long Beach	CA
Tradewinds International, Inc.	Savannah	GA
USA Woods International	Memphis	TN

W.M. Cramer Lumber Co.  
Walter H. Weaber Sons Inc.  
Webb Export Corp.  
Webster Industries Inc.  
Weyerhaeuser  
Whitson Lumber Co.  
Willamette Industries Inc.  
World Wood Co.

Hickory	NC
Lebanon	PA
Edinburgh	IN
Bangor	WI
Tacoma	WA
Nashville	TN
Albany	OR
Cove City	NC

DEPARTMENT OF FOOD AND AGRICULTURE  
1220 N Street, P.O. Box 942871  
Sacramento, California 94271-0001



WRITTEN STATEMENT TO THE U.S. HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE  
ON THE PROPOSED  
NORTH AMERICAN FREE TRADE AGREEMENT

BY HENRY J. VOSS, DIRECTOR  
CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

October 21, 1993

The California Department of Food and Agriculture, having worked with the state's agricultural industry and U.S. policy makers throughout negotiation of the North American Free Trade Agreement (NAFTA), urges Congressional support for the proposed accord.

Our assessment of the agreement indicates that it will advance Mexico as one of California's fastest-growing export markets. Increasing foreign markets is vital to California's diverse agriculture, which led the nation in farm exports in 1992. Export sales of agricultural, fish and timber products contributed an estimated \$11.3 billion to California's economy in 1992. Foreign sales have helped sustain a farm industry facing pressure from growing imports, rising costs and limited financing in recent years. Canada ranked second behind Japan as an export destination for California's agricultural products in 1992, representing 17 percent of the total, and Mexico ranked fourth, taking 8 percent.

#### Eliminating Trade Barriers

The Department expects that liberalizing trade with Mexico will present better export opportunities for many California commodities that now face tariffs, import licensing restrictions, quotas or questionable quarantine restrictions. NAFTA could increase exports to Mexico for many California products, including apples, pears, peaches, kiwifruit, raisins, prunes, cherries, cotton, grapes, tomatoes, dried beans, nuts, citrus, rice, dairy products, beef, hay, wheat and wine. Liberalization of the important Canadian market, which began under the U.S.-Canada Free Trade Agreement, also will continue under NAFTA.

The Department recognizes that NAFTA will increase both export opportunities and import competition, so we are pleased that the agreement contains several provisions, including longer phase-in periods and safeguards for import-sensitive industries, to minimize injury from imports.

#### Protecting Plant, Animal and Human Health

NAFTA's new rules on plant and animal health protection could be an important model for reducing one of California agriculture's most formidable trade barriers around the world: unfair quarantines. Currently, foreign bureaucrats can keep our fresh produce from meeting consumer demand overseas by using spurious plant pest restrictions as protectionist devices against imports. NAFTA negotiators agreed that rules to protect plant, animal and human health (1) must be based on scientific principles and risk assessment; (2) must be applied only to the extent necessary to provide a country's chosen level of protection; and (3) must not result in unfair discrimination or disguised restrictions on trade.

Another positive aspect of the agreement for California consumers and farmers alike enables us to maintain our high quality standards and apply them equally to our own producers and our NAFTA trading partners. We will need adequate U.S. resources to maintain quality controls on all food, animals and plants coming into the United States to protect against introduction of plant pests such as fruit flies and animal pests such as brucellosis, and of course to keep providing a wholesome and safe food supply. Anticipated increases in trade among the United States, Canada and Mexico will demand more resources at the borders, and we must be prepared to meet that challenge.

### **Upholding Intellectual Property Rights**

Many California producers have been concerned about a lack of protection for plant and seed varieties in Mexico. Our analysis indicates that NAFTA will provide a higher level of protection than any international agreement has afforded to date, including protection of plant breeder's rights. Protecting trademarks and brand names is also important to many of the state's food exporters. Strong enforcement of these rules will be key to their success.

### **Disciplining Subsidies and Dumping**

California exporters of wheat and forage products are withholding their support of NAFTA until the United States imposes tougher disciplines on Canadian subsidies, including transportation subsidies, monopoly pricing practices, and processing subsidies. It is difficult to address domestic support programs in a regional trade agreement, so NAFTA skirts the issue except to endorse multilateral reform through the General Agreement on Tariffs and Trade (GATT). The pact recognizes that the use of export subsidies within NAFTA is inappropriate except to counter subsidized imports from a non-NAFTA country. The Department reaffirms its support for multilateral trade liberalization in the GATT and urges the U.S. administration to uphold all rules disciplining subsidies within North America.

### **Protecting Investment**

Mexico's recent changes in land-ownership laws, combined with proposed NAFTA protection of foreign investment, should create more equitable treatment of foreign investment among NAFTA participants. The Department supports these changes.

### **Improving Rules of Origin**

NAFTA's rules of origin appear to address the Department's concerns about preventing duty-free transshipment of products from non-participating nations into the United States. Strict enforcement of these rules will be important for economic reasons, as well as to prevent the spread of pests into California agriculture.

### **Conclusion**

The real question in the NAFTA debate is, "Will we be better off with or without NAFTA?" Those who fear increased import competition must recognize that we already face stiff competition from Mexico's agricultural sector under current conditions, and trade liberalization under NAFTA will be gradual while Mexico's standard of living increases. Defeating NAFTA will not make the competition go away. Those who complain about poor environmental protection in Mexico and along the U.S.-Mexican border must ask if they prefer the status quo, or whether we should take advantage of the opportunities presented under NAFTA to improve environmental protection. Defeating NAFTA will not improve environmental protection. Those who fear the exodus of jobs to Mexico also must ask if they prefer the status quo, or whether they want to use increased trade to promote economic growth in Mexico that will lower the wage differential between us. They also must recognize that many American firms are returning to the United States, having discovered that labor costs are only part of the competitive equation. Defeating NAFTA will not keep more jobs in America. And those who think that a poor country like Mexico cannot afford to buy very much from the United States should realize that, although half of Mexico's 80-million population does live in poverty, one-quarter to one-third of Mexicans have relatively high incomes, creating a market nearly the size of Canada's for U.S. goods. Mexicans already buy more per capita from the United States than Japanese or Europeans. Defeating NAFTA will not help us take advantage of the growing North American market.

I thank you for this chance to share the Department's views on NAFTA. I hope this committee, and all members of Congress, recognize that NAFTA presents a rare opportunity to advance toward meeting the social, economic and political challenges that face the United States and its neighbors today.



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# THE FARM CREDIT COUNCIL

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50 F STREET, NW • SUITE 900 • WASHINGTON, DC 20001 • 202/626-8710

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October 19, 1993

The Honorable E (Kika) de la Garza  
 Chairman  
 Committee on Agriculture  
 U.S. House of Representatives  
 Washington, DC 20515

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 7100 E. BELLEVUE AVE.  
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 ENGLEWOOD, CO 80111  
 P.O. BOX 5130  
 DENVER, CO 80217  
 TEL: (303) 740-4200

Dear Mr. Chairman:

Thank you for the opportunity to provide our suggestions and comments on legislation implementing the North American Free Trade Agreement (NAFTA). We believe the Farm Credit System can and should play an innovative and constructive role in helping rural America compete in the new competitive environment brought about by NAFTA.

Specifically, additional financial resources are needed to support the efforts of farmers, agricultural cooperatives and agribusinesses in securing international competitiveness for their products. Moreover, the viability of our nation's rural economy is largely dependent on the success of these competitive efforts. These points were underscored by Farm Credit Council Board Chairman Myron Edleman during his participation in the Department of Agriculture's Rural Development Forum on October 8.

We urge your consideration of and support for several approaches by which the Farm Credit System can help American agriculture and rural communities adapt to the effects of NAFTA. Specifically, we propose:

- financing "Rural Competitiveness Organizations" (RCOs) with direct investments from Farm Credit System institutions and others;
- eliminating the barriers to farmer-owned cooperatives obtaining Banks for Cooperatives financing for domestic and international business activities in which they have an ownership interest;
- making U.S.-based financing more readily available to increase agricultural exports from all sources while providing preferential treatment for cooperative-sourced exports; and



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- authorizing Farm Credit System institutions to finance certain cooperative-related and farm-related business activities.

The Farm Credit System strongly endorses these proposals and urges the Committee to include them in NAFTA enabling legislation.

### Rural Competitiveness Organizations

Financing "Rural Competitiveness Organizations" is an innovative response needed to help Rural America compete. An RCO would be any entity that makes equity investments in and provides other financial, technical, and managerial services to:

- beginning farmers;
- cooperatives and other businesses that process and market value-added agricultural products; and
- agricultural producers and rural communities attempting to comply with conservation and environmental mandates.

Independent studies document the lack of sufficient equity capital and other financial services for these groups. The inadequacy of equity investment is a primary inhibitor of economic growth and global competitiveness for rural America. RCOs would provide access to these much needed resources. This is one reason that the establishment of rural equity investment vehicles is a domestic policy priority of the Clinton administration. However, under current law, Farm Credit System institutions can neither create an equity investment subsidiary nor invest in an existing equity investment organization. We propose that System institutions be authorized to invest in RCOs.

The focus of public policy today is to make it easier for the private sector to play a greater role in economic development. The Farm Credit System endorses this approach. RCOs would require no Federal funds to operate and would create no liability, either implicit or explicit, for the Federal government. RCOs would not be part of the Farm Credit System and would not have "agency status."

We would encourage a broad range of financial service entities and others to invest in RCOs. While the System would devote significant resources to this enterprise, we would welcome similar commitments from community banks, private investors,

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cooperatives, credit unions, rural utility systems, and others interested in the competitive success of rural America.

In keeping with the System's strong commitment to financial safety and soundness, we would suggest the following guidelines and safeguards for System investments in RCOs:

- the liability of a System institution investing in an RCO would be limited to the amount that institution invests in the RCO;
- capital investments by a System institution in an RCO would require the approval of the board of directors of the appropriate Farm Credit bank and/or association;
- the amount a System institution could invest in RCOs would be limited to 10 percent of its capital;
- at the time of its initial investment in an RCO, a System institution would be required to have attained at least 110 percent of its minimum permanent capital requirement; and
- System investments in RCOs would be subject to oversight by the Farm Credit Administration.

By authorizing Farm Credit System institutions to invest in RCOs, Congress can remove existing barriers which prevent the channeling of investments and other needed financial services to farmers and rural areas, without investing a single Federal dollar. Investment in RCOs would create a potential Farm Credit System investment pool of significant magnitude. And it would be supported by the System's proven credit extension capabilities. Furthermore, it is the Farm Credit Council's expectation that capital provided by System institutions will serve as a catalyst to non-System lenders, cooperatives and other potential investors to join in this opportunity to help producers, businesses and communities adjust to the changing competitive environment.

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### International Financing

These proposals are designed to spur the export of U.S. agricultural products. I will discuss them here briefly and Doug Sims, President and Chief Operating Officer of CoBank, will be testifying about them in greater detail.

Many farmer-owned cooperatives are seeking new business opportunities through joint ventures and partnerships both domestically and abroad. These strategic alliances are becoming commonplace as cooperatives and other businesses expand into new markets or create new sources of revenue for farmers by adding value to agricultural commodities.

Current law inhibits farmer-owned cooperatives from entering into such arrangements by restricting the ability of their traditional lenders, the Banks for Cooperatives, from providing needed financing. Removing this restriction would provide cooperatives needed financing to support the flexibility they require in the global marketplace.

Additionally, the System proposes that Congress authorize CoBank to finance the sale of any agricultural product originating in the United States, while giving priority to products from farmer-owned cooperatives. Currently, except for agricultural products purchased by the states of the former Soviet Union, statute limits CoBank to financing only those exports that originate from agricultural cooperatives.

The System's proposal would make U.S.-based financing more readily available to a broader segment of U.S. agriculture. With the exception of CoBank, most agricultural export financing is provided by foreign banks. CoBank has the internationally recognized expertise necessary to help move American agricultural products overseas.

### Cooperative-related and Farm-related Business Lending

Production agriculture, both individual farmers and cooperatives, depends largely on related businesses to process, market, and otherwise add value to their raw commodities. The farmers and cooperatives who own the System want to contribute to the stability and future success of these businesses. We propose to provide cooperative-related and farm-related businesses with the financial services they need to efficiently compete with a growing number of international competitors.

In today's global economy, businesses need a lender dedicated to and experienced in their business. The Farm Credit System has been involved in agriculture and its

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related businesses for over 75 years. The System has the nationwide network in place to provide coop- and farm- related businesses with the financial resources necessary to compete for international business.

Mr. Chairman, we appreciate your continued interest in finding solutions to the concerns of rural America. We stand ready to assist you. We would be pleased to provide additional details and specific legislative language at your convenience.

Sincerely,



William R. Weber  
President and CEO













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