BIOGRAPHICAL SKETCH

Neal Fisher, Administrator

As administrator of the North Dakota Wheat Commission, Neal Fisher is responsible for implementing producer-funded programs designed to increase the economic well-being of North Dakota wheat producers. Fisher works directly with programs related to export market development, research, trade policy and other issues affecting the competitiveness of U.S. hard red spring and durum wheat producers

His work for the Commission and U.S. Wheat Associates takes him worldwide, presenting programs on spring wheat and durum use, their economic and quality advantages, and supply and demand outlook. He also provides producers with market information through a monthly column called the *Wheat Market Review* and numerous speaking engagements.

Fisher also represents North Dakota wheat producers on a U.S. Wheat Associates phytosanitary task force that deals with concerns such as Karnal bunt, TCK smut and the use of genetically-modified organisms in the development of new wheat varieties.

Fisher's accomplishments include taking the lead in the early 1990s in assembling information for a Section 22 trade case against skyrocketing imports of Canadian spring wheat and durum. The case ultimately led to a one-year tariff rate quota on Canadian wheat shipments to the United States, followed by unofficial limits.

Fisher joined the Commission in 1978 as a marketing specialist, became deputy administrator in 1983, and was appointed administrator in 1998. He is a graduate of North Dakota State University, where he earned master's and bachelor's degrees in agricultural economics. He also has studied Russian language, culture and history at George Washington University, Washington, D.C.; and Soviet agricultural technology and cultural practices at the Belorussian Agricultural Institute, Gorki, Belorussia. In the mid-1970s, he worked on state and collective farms in the western regions of the former Soviet Union.

Fisher grew up on a farm near Pettibone, N.D., where he and his family continue to raise small grains and commercial cattle. He and his wife Debbie make their home in Bismarck and have three children.

Revised 2/99

Testimony of Neal Fisher, Administrator
North Dakota Wheat Commission
Before the U.S. Trade Deficit Review Commission
April 26, 2000

Good morning, Chairman Angell and members of the commission, my name is Neal Fisher. I am the administrator of the North Dakota Wheat Commission headquartered in Bismarck. Our commission provides export market development, promotion, research, trade policy and information services for 19,500 wheat farming enterprises within the state.

As you know, U.S. wheat farmers are currently facing severe economic conditions due to a combination of factors. Some of these include, nearly five straight years of record worldwide production, growing inventory levels in the United States and other major wheat exporting countries, Asian financial problems, unilateral trade sanctions, less than aggressive U.S. trade policies, and rising imports of foreign agricultural products, including wheat and durum. Obviously there are many factors that can be cited as contributing to the problem, but as a result, commodity prices have declined to 30-year lows in many instances.

We readily recognize that increasing the volume and value of U.S. agricultural exports is an important part of a much needed recovery. Although trade and trade policy may be abstract concepts for some farmers, wheat producers are keenly aware that expanding exports through sound export policies and aggressive use of the tools available are vital to the success of their industry. More than 50 percent of the total annual U.S. wheat crop is exported each year to processors and consumers in more than 130 countries.

Today I would like to briefly discuss some of the policies and concerns that perplex us as wheat producers, recognize the challenges we face together and suggest some potential solutions to the current dilemma in agricultural trade.

The problem

U.S. trade policies traditionally encouraged and enhanced the ability of U.S. agricultural producers to export wheat and other valuable commodities. Through a positive approach to the many facets of the process, growth in trade was encouraged through agronomic advances, improvements to logistics and infrastructure, implementation of sound export policies and aggressive use of export programs that encouraged foreign buyers to purchase and process U.S. agricultural goods. In doing so, producers were able to compete internationally, expand their market share, increase producer prices and improve the economic well-being of their own enterprises and that of the local and national economy. In addition, a *positive* balance in agricultural trade was a regular feature and a major factor in offsetting or reducing the overall U.S. trade deficit.

Today, however, in the face of an ever-increasing overall U.S. trade deficit, the agricultural trade balance is slipping. In the 1980s and early 1990s, when American agricultural trade policy maintained a more aggressive posture, U.S. agricultural trade contributed a sizeable surplus to the overall trade balance. As recently as 1996 the agricultural trade surplus was calculated at $27 billion, but by 1999 the agricultural trade surplus dipped to $11 billion. Calculations for the first quarter of 2000 indicate a continuation of this tragically declining pattern. Though still a very significant part of the positive side of the U.S. trade picture, this alarming trend sharply reduces the ability of U.S. agriculture to offset a significant portion of the U.S. trade deficit. Unfortunately in 1999 the trade deficit reached a record $270 billion.

Under these circumstances, producers logically question the commitment of U.S. policymakers to actively seeking out opportunities for expanded agricultural exports. Many of the promises made to U.S. wheat producers at the inception of the current Farm Bill, with regard to expanding U.S. wheat exports, have yet to be implemented. The latest edition of USDA's Outlook Report painted a very discouraging picture for wheat producers in the coming year. The author cited strong competition from other exporting countries, who often use export subsides of one form or another, as a major factor hampering the recovery of producer marketing and pricing opportunities. In other words the reduced ability of U.S. producers to compete and gain fair market access to many of the world's consumers clearly stands in the way of expansion of the U.S. agricultural industry and threatens the very livelihoods of an increasing number of U.S. farmers and ranchers.

U.S.-Canada wheat trade

Wheat producers have a particularly troubling concern where U.S.-Canada wheat trade is concerned. The overall value of agricultural trade between the United States and Canada is growing, but we must take steps to ensure that this growth does not become one-sided. Since 1996, the United States has incurred an average annual deficit of $861 million in agricultural trade with Canada. As mentioned previously, many factors have contributed to the world and U.S. supply and demand levels that have caused today's depressed prices. However, Canadian trade practices have certainly played a significant role when it comes to the situations for durum and hard red spring wheat, which are widely recognized as specialty wheats with very specific end-uses.

Canada has been increasingly targeting the United States as a market for these wheat classes, so much so that in 1998-99 our country was the second largest export market for Canadian durum wheat and the largest export destination for all Canadian wheat exports combined.

Canadian durum shipments to the United States have averaged 13.1 million bushels over the last five marketing years (1995-99), accounting for 16 percent of our domestic durum usage. During the 1998-99 marketing year (June-May), durum imports from Canada reached a record 20 million bushels, now accounting for an incredible 21 percent of domestic usage.

The volume of Canadian spring wheat shipments has averaged 48 million bushels during the last five years, accounting for 17 percent of domestic spring wheat usage.

According to the USDA Foreign Agricultural Service, exports of Canadian durum and durum products to the United States for 1998-99 were nearly 12 times greater (583,000 metric tons or 21.4 million bushels) than exports of U.S. durum and durum products to Canada (50,000 metric tons or 1.8 million bushels). Furthermore, a November 12 Reuters article, citing USDA's monthly Grain: World Markets and Trade report, says the value of durum sales to the United States is now double the value of U.S. pasta exports to Canada.

Similarly, in the case of all wheat, exports of Canadian grain and grain products to the United States for 1998-99 were projected at 2.2 to 2.36 million metric tons (81 to 87 million bushels), dwarfing exports of U.S. grain and grain products to Canada of 110,000 metric tons (4 million bushels). It is abundantly clear there is neither equity nor fairness in this trade relationship.

Clearer yet is the fact that predatory Canadian trading practices have had a detrimental effect on U.S. farmers, spring wheat and durum producers in particular, reaching far beyond our domestic market. Through the use of standing offers of price discounts, over-delivery on quality factors, and other favorable contract terms, the Canadian Wheat Board (CWB) has eroded U.S. market share around the world, but most notably in the Latin American and African regions.

The CWB's penetration of the U.S. domestic market and third-country market share is leading to the decimation of the U.S. durum industry. It has lowered farm-gate prices and discouraged U.S. production, thereby creating additional opportunities to move Canadian wheat into the U.S. market. Canada's unfair trade practices have weakened the economy of the Northern Plains, and raised taxpayer outlays in the form of larger deficiency payments and emergency government assistance payments to producers, in lieu of true market and pricing opportunities.

In December 1998 a Record of Understanding was reached with Canada as a U.S. government attempt to gain reciprocal access to Canada's grain handling and transportation system. Yet, the reality is that access to the Canadian market is more an issue of principle, rather than a real market opportunity for American wheat farmers. The true benefit of pursuing reciprocal access with Canada is the chance it provides to peel away some of the layers in an ongoing effort to fully appreciate or expose the Canadian system of hidden subsidies and trade barriers which typically masquerade as quality control measures.

The Canadian system and access to it remains highly restrictive. Under Federal authority, the Canadian Wheat Board has a monopoly on sales of western Canadian wheat, durum and barley going into the export market and the domestic human consumption market. With these exclusive rights and a government-guaranteed initial payment to producers, the CWB can price grain and enter into forward contracts without facing commercial risk (replacement cost). No truly commercial grain merchandising entity anywhere in the world has this level of protection from daily market realities. The CWB also enjoys preferential freight rates, access to government-owned rail cars and has special rail car allocation privileges, all negotiated and protected with approval of the Canadian government.

These factors all have a subsidizing effect, but the producer subsidy equivalent, like CWB prices, will never be known as long as the CWB is exempt from Canada's federal Access to Information Act.

Compounding these trade distortions are Canada's system of grain import barriers, disguised as a quality control system, and a provision of the Canada-U.S. Free Trade Agreement which erroneously equates the CWB's initial payment to producers as the definition of an acquisition price for Canadian wheat. The net effect of the latter is a serious undervaluing of Canadian wheat and durum in U.S. and third-country markets (without regard for actual replacement cost).

Let me re-emphasize that although our trade problems with Canada represent very important issues with the North Dakota Wheat Commission and the wheat producers we represent, these certainly are not our only trade concerns. We continue to be disadvantaged by the practices of other exporting state trading enterprises (STEs), the European Union's (EU) blatant use of export subsidies and the EU domestic price support system which causes substantial overproduction, adds to the buildup in world wheat inventories and depresses world prices.

Recommendations

In addition to the preceding comments, we would like to recommend the following actions as potential means of reversing the damaging trends we have noted. Taking decisive actions to facilitate the expansion of U.S. agricultural exports would provide numerous benefits to U.S. wheat producers but also to the nation's entire economy and numerous enterprises, which are not directly related to the U.S. agricultural industry.

Legislative Action

- **PNTR for China.** Pass legislation providing permanent normal trade relations for China as a normal step in her accession to the WTO.

  Last November the Administration completed an unprecedented agreement that would serve to open the Chinese market to American agriculture while requiring no changes in United States trade rules or market access. The opportunity for American producers to compete in the greatest potential growth market in the world must not be lost.

  We fully support the work done by the administration to assist China's entry into the WTO and dramatically cut barriers currently imposed on American agricultural products. This agreement locks in and expands U.S. access to a market of over one billion people. China's economy is already among the world's largest and over the past 20 years has expanded at a phenomenal rate of nearly 10 percent per year. During this period, U.S. total exports to China have grown from negligible levels to about $14 billion a year. Agricultural exports in fiscal year 1999 were $1.1 billion and should increase substantially as a result of this Agreement.

- **Sanctions Reform.** Prohibit the use of all unilateral sanctions on food and medicine. We strongly support legislation introduced by Senator Helms, which would lift sanctions on agricultural products and medicine and approve parallel language in the House. However, the Helms language does not permit the use of export credit programs that are essential to making competitive sales in many of the sanctioned markets.

  At the close of Congress last year 122 House members sent a letter the Speaker of the House urging action to remove unilateral sanctions from food and medicine. They stated three simple reasons why unilateral sanctions must be removed, they are:

  1. Unilateral food and medicine sanctions do not work because our allies freely supply the same products to sanctioned states;
  2. Denying access to food and medicine is an abhorrent foreign policy tool;
  3. Unilateral sanctions punish American farmers and depress American commodity prices by denying access to significant international markets.

- **Fund Trade Programs.** Fund existing export programs to the fullest extent authorized in the 1996 farm bill. We believe that our current market development and promotion programs have been very successful in building and maintaining strong export markets. They are the only viable tools we have against unfair subsidies and actions by our competitors. We believe that the Market Access Program should be funded up to $200 million and a minimum of $35 million should be provided for the Foreign Market

Development program. We also support allowing up to 50 percent of available Export Enhancement Program funds to be used for related market development and promotion programs. Important discretionary export programs such as PL-480 Title I and 416 (b) should be funded at no less than the 1999 levels.

- **FMD Program.** Protect the FMD program and the dollar amount by clearly defining the program in Congressional Budget Office or in the congressional budget or appropriations legislation. This program was moved to the CCC budget during appropriations actions in 1999 and needs to be clearly identified as a viable program by Congress.

- **WTO Membership.** Stop any attempt in Congress to withdraw approval of the U.S. WTO agreement.

  The Uruguay Round Agreement, which created the WTO, marked a major departure in how trade negotiations were conducted multilaterally. The Agreement on Agriculture provides specific staged reductions in global farm protection which are key to opening markets. They include: the tariffication and reduction on non-tariff barriers to trade; the capping and reduction on a volume and value basis for export subsidies; and the aggregate measure of domestic support subject to certain reduction commitments.

  Without the pressure for greater market access, the elimination of non-tariff trade barriers, and the disciplines on the use of export subsidies the WTO affords, the livelihood of U.S. wheat growers would be in greater jeopardy. While great strides were made during the Uruguay Round, much work is left to liberalize world wheat trade. Wheat growers have identified the WTO as the best means to further farm trade liberalization. Export subsidies from the EU continue to be a thorn in the side of U.S. wheat producers and without the leverage of other WTO member countries further discipline of export subsidies would be impossible. Additionally, the U.S. wheat industry is pressing for greater disciplines under the auspices of the WTO on the structure and practices of monopoly state trading entities such as the Canadian and Australian Wheat Boards.

- **USTR Agriculture Ambassador.** Approve legislation to create a permanent agricultural Ambassador in the Office of the USTR. We strongly support the position of agriculture Trade Ambassador in the USTR. We must maintain a strong voice and continue to demonstrate to our competitors that the United States is serious about enforcing commitments made in opening markets for agriculture. Making this a permanent position would send a strong signal to the world and give greater confidence to U.S. producers that their concerns will be heard.

- **Fast Track.** Approve trade-negotiating authority (fast track) as soon as possible.
  Our trading partners simply have no reason to take our negotiators seriously until they have the ability to bring agreements to Congress that will not have to be renegotiated to satisfy the concerns of 535 elected officials. We believe this should be one of the very first actions of the 107th Congress. Sadly we do not believe passing fast track legislation will occur in the current Congress.

  No one can deny that we have been hindered in moving forward with negotiations to open markets, especially with our close neighbors to the South, because of failure to provide fast track negotiating authority. Meanwhile, our competitors are busy improving their market access through separate, regional agreements, and U.S. producers are being hurt in the process. For example, an agreement between Canada and Chile exempts wheat purchases from Canada from a 10 percent import duty that continues to apply to purchases of U.S. wheat. Similarly the Mercosur agreement gives Argentine wheat producers an advantage in competing for Brazil's huge wheat import needs. The agreement mandates that imports of wheat from outside the Mercosur group of countries be assessed a 13 percent tariff.

  In addition, the European Union has signed 29 regional free trade agreements with many of our global trading partners to the disadvantage of our farmers, workers and industries.

Administrative Action

- **WTO Agricultural Negotiations.** We must move the built-in agenda forward and begin action on a comprehensive round. The built–in agenda has been acknowledged and agreed to and the groundwork was laid in Seattle. To be fully successful for agriculture we believe this should be a comprehensive round- bringing all sectors to the table. I will come back to our specific issues for the negotiations.

- **Aggressive use of existing export programs**. In particular, EEP, GSM-102/103, and PL 480 Title 1, and section 416. These tools are in the hands of the administration and must be used to gain market share as well as for humanitarian purposes. We believe they can be used in ways that do not distort world prices and help move our products into the world market. These programs should be used wherever possible as a positive market development tool, paying greater attention to specific end-use requirements of the destination market and the greater satisfaction of the customer.

- **Export Enhancement Program**. Target EEP to aggressively offset European export subsidies and to combat the discriminatory and monopolistic pricing practices of exporting state trading enterprises. The EU has increased the level of its subsidies, while U.S. stocks continue to increase as we lose market share to these unfair competitor trade practices.

The U.S. share of the world wheat market has fallen from 29 percent from 1986 to 1995, the period when EEP was in use, to 23 percent in the period from 1996 to 1999. Paul Dickerson, who oversaw USDA's export subsidy program in the early 1990s and who now serves as vice president of overseas operations for U.S. Wheat Associates, says there was an element of surprise with the subsidy program that helped the United States compete against the Canadian and Australian wheat boards. With the export subsidy program gone, there is no secret any more. The wheat boards can look at our prices every day, see exactly where we are, and what they need to do to undercut U.S. prices.

The CWB and AWB's monopoly control over wheat procurement and exports gives them the ability to undercut U.S. prices. Until we can do something about monopoly boards that can arbitrarily price their products at whatever level they choose, the United States may be considered a residual supplier with access to only 25 to 30 percent of the world market.

- **Sanctions**. End administrative prohibition on the use of export credits on the sale of food to previously sanctioned markets. Our competitors are in these markets using many different programs while our own Congress denies us access. Sanctions do not work and make even less sense as foreign policy tools. Hungry consumers must not be held hostage for political purposes or ideologies.

- **FTAA Negotiations.** Ensure wheat issues are addressed as negotiations move forward. While negotiators continue to meet, progress is slow and it is clear that no important actions will be made in the region until the U.S. has fast track negotiating authority. However, we must keep our place at the table and take all steps necessary to guarantee that our positions are clear and supported.

- **Price Band.** Initiate negotiations with Chile to eliminate the Chilean price band system for wheat.

- **Grain Cleaning.** Implement a grain-cleaning program and consider other innovative ideas to enhance the competitiveness of U.S. wheat. One suggestion is to pay greater attention to quality requirements of the end-user and the cleanliness issue in PL-480 and other Food Aid efforts to further enhance the effectiveness of these programs as positive market development tools.

- **Karnal Bunt.** Urge Mexico to recognize USDA's Karnal Bunt quarantine boundaries.

Other pyhtosanitary issues include Brazil's ban on U.S. wheat imports. With the exception of U.S. hard red winter wheat grown in Texas, Oklahoma, New Mexico, Kansas, Colorado, Nebraska and Missouri, Brazil currently imposes a phytosanitary ban on U.S. wheat from other origins within the U.S. Brazilian wheat milling representatives would like to see the ban on U.S. wheat imports lifted in order to increase their supply options. Moreover, one Brazilian wheat industry (ABITRIGO) official suggests millers are ready to pay a 10 to 15 percent premium for U.S. wheat because it is of better quality than that of this year's Argentine crop. Industry sources estimate if the ban were lifted, the United States could potentially export between 1.0 and 1.2 million metric tons (40–45 million bushels) of wheat to Brazil annually.

Key Issue Areas in the World Trade Organization Negotiations

Export Subsidies and State Trading

- The United States should establish as a high priority the elimination of all direct export subsidies within three years of the conclusion of the upcoming round.

- The United States will need to develop a strategy on phasing out export subsidies. While the United States has discontinued subsidies on its wheat exports, the possibility of resuming its wheat export subsidies continues, and it should be used as its leverage on the issue.

- During any proposed transition for the elimination of export subsidies, disciplines on export subsidies will need to be established on a commodity specific basis and subject to specific individual disciplines. For example, wheat should be kept separate from flour.

- The proposed Agenda 2000 is expected to reduce the level of subsidies used by the EU in exporting wheat, but it is apparent they will continue to use subsidies on occasion. The EU should be encouraged to forego direct export subsidies entirely under Agenda 2000.

- Eliminating State Trading Exporting (STE's) monopolies should be another high priority. STE's freely admit to price discrimination and such discriminatory pricing amounts to an implicit export subsidy. Failure to reform the STE's will continue a distinct and serious distortion in world wheat markets. (State Trading Import (STI's) monopolies are discussed in the Domestic Supports section)

- Recent "reforms" in STE's such as the Australian Wheat Board and the Canadian Wheat Board leave in place a monopoly or single-desk exporter and are thus still in need of export subsidy discipline. The wheat boards freely admit that they distort markets by offering different prices to different countries. Producers in those countries need to have more than one option for selling their crops as a way of ending the monopoly pricing of the boards. In other words, farmers currently under the control of a wheat board or some other STE would be allowed the opportunity to market their products either to an STE or to private buyers. This would be fully consistent with the open market economy espoused by the WTO.

We are grateful for this opportunity to comment on the trade deficit and the factors contributing to it. The decline in prominence of U.S. agricultural exports in recent years has definite adverse impacts on wheat producers in the United States. We also remain concerned about the negative effects the growing inequities in trade balances have on all of rural America. The United States must move aggressively in all possible avenues to open markets, promote American agricultural products worldwide, and assure that the <u>rules of fair trade</u> are observed by our trading partners and <u>enforced</u> in all areas of agricultural trade.

Thank you for the opportunity to appear here today. I look forward to any questions or comments you may have.