

MR. ANGELL: Mr. Johnson, thank you for your statement.

The Chair is going to ask members of the panel for help. I would like, if possible, to get two or three rounds of questions. To do that, we need to limit ourselves to one brief question to one individual. And we begin with Commissioner D'Amato.

MR. D'AMATO: Thank you very much, Mr. Chairman. I want to commend the whole panel for your testimony. It's very, very compelling testimony. And I want to commend the Chairman for assembling this panel. I think this has been a very important panel for us.

And to ratify your request for additional information from the panelists, near the last page of your information, I want to include a page that's called, "No More Mr. Nice Guy."

And then, let's have the unvarnished recommendations of what we can do bilaterally to start correcting this question of complete failure to penetrate these markets, what do you recommend that we do under the "No More Mr. Nice Guy" title?

I have one question for Mr. Fisher. You paint a devastating picture of Canadian unfairness in the wheat market. And we've heard this from Senator Dorgan and other Senators and seen the statistics on this.

The problem is, I look at your remedies, and tell me if I'm wrong, but what I see is a series of remedies that are guaranteed to reduce Congressional power to influence the situation, Fast Track, which moves power to the Executive branch, WTO, which moves it totally offshore to some crowd in Geneva.

MR. ANGELL: Commissioner, is your question whether Mr. Fisher favors Fast Track?

MR. D'AMATO: No. My question is: How are we going to get the remedies by shifting power from the Congress and from the United States offshore to get to these remedies? Why do you think that is going to be successful?

MR. ANGELL: Mr. Fisher.

MR. FISHER: Mr. D'Amato and members of the Commission, I find that this is a complex question, and that's fair, because this is a very complex topic.

I also think that producers in our region are in a perplexing situation are that they have a situation that is probably somewhat unique to the Northern Plains. We have a great need to export and to open all trade opportunities that we possibly can to allow that to happen.

In earlier comments we heard about the need to export every third row of soybeans and corn. In a wheat field where we find those narrower rows of wheat, every other one has to be exported.

So we do need to have all the policies in place and all the possible policies we can to open markets. That's a fact.

At the same time we're faced, in the Northern Plains, with that unique dilemma of sitting next door to the Canadians, who produce, it just so happens, exactly the same classes of wheat that we do, spring wheat and durum. These two specialty classes of wheat have very specific end uses. Canada, as a country produces spring wheat and durum in larger volume than the U.S. with a population base that's only 10 percent of our own country. They have a small consumption base.

So obviously the larger market opportunities lie to the south of them, in the U.S.

And much like in their trading practices employed around the world, they take every advantage they possibly can to exercise the advantages that they maintain through numerous questionable trading practices, which we find to be, quite frankly, out of step with the rest of the world today.

So this, as you point out, is a very unique situation. There are some tools, however, that are still available to us as producers and as a country.

In 1994 we were rather successful with the Section 22 provision of the U.S. Trade Act, which is now no longer an option. We gained some restraint on Canadian imports of spring wheat and durum into the United States with a tariff rate quota.

We still have some options in Sections 201 and 301, and the anti-dumping provisions that are still there and are on my list of recommendations as possible remedies. They're not on the list for removal to my knowledge.

So we hope that, through that type of activity and Congressional action, help from USTR, and

other appropriate actions of the Administration, that we can find some rationalization of this problem for us. Meanwhile we must still try to maintain those open market opportunities as best we can in third-country markets.

MR. ANGELL: Mr. Fisher, can North Dakota or Minnesota durum wheat go across the border into Canada and be marketed the way durum wheat from Canada can come across our border?

MR. FISHER: Chairman Angell and members of the Commission, that's a very interesting point -- and I think you've hit a very interesting question. You've hit on the crux of the fairness problem.

As I mentioned in my written remarks it's better described than I was able, with the limited time, to address this complex issue.

The Canadian system remains very protectionist and very, very restricted.

I think some of the examples that I cited are symptoms of the fact that we have 20-fold the amount of wheat coming into this country as we have going back, even when you consider processed products.

That is often an argument that has been made - that the manufactured products which are going back into Canada offset the increased volumes moving into the U.S. Well, the truth is even that has slipped in terms of our comparative volumes or the value for that matter.

According to current U.S. trade statistics, the value of those wheat and durum exports from Canada into the U.S., in the raw state, is now double that of the finished products that are moving back into the Canadian market from U.S. processors.

The Canadian system is still very restrictive. As you all, I think are aware, a year ago, the U.S. entered into an agreement with Canada, a so-called record of understanding.

I guess I should correct myself and hasten to caution you on the term, agreement, because it was strictly a record of understanding. We find it to be an effort in principle rather than in practicality.

And the only positives I found, frankly, in that record of understanding is maybe it's a chance to peel back some of the layers of all the protectionist activities that do go on in Canada and their ability to

maintain that monopoly and to maintain all those government benefits that they use against us as producers in our region.

MR. ANGELL: Commissioner Wessel.

MR. WESSEL: Thank you. And I direct this question to Mr. Swenson.

One of the primary philosophical bases for free trade is the benefit to the consumer of an open market.

Well, I'm also a consumer. I go to the grocery store regularly. And I haven't seen a dramatic reduction in my food bill over the last months. Yet you talk about, and the rest of the panelists talk about, the reduction in farm income.

And with prices at the grocery store remaining fairly stable, with farm income down, where is the money going? And if we do open these farm markets, are we going to -- what can we do and what are we going to see in terms of farmers, ranchers, cattlemen, in terms of their family income going up?

MR. SWENSON: Well, number one, no trade agreement will ever realize lower food prices for the American consumer. We're going to continue to pay

whatever the market will bear in food prices. And that is also in place regardless of what prices are for producers in this country.

We saw pork prices that dropped to record lows in modern history. Pork prices never came down in the store.

A question was asked at a coop annual meeting -- and which I won't refer to the coop -- as to why they hadn't lowered the prices in the wholesaling of their processed pork. And they said, Well, consumers are used to paying that price, so why should we lower our price?

And so, if consumers are used to paying it, the consumers are going to pay it. And we're not going to see lower consumer prices, trade agreements or when producers in this country receive a lower price.

MR. WESSEL: So where is the money going?

MR. SWENSON: The money is going to processors and the retailers and the margins that they affect through marketing the product.

We held a farmer's share luncheon in Washington, D.C. A beef luncheon, an \$8 value. The

farmer's share of that was 39 cents. The rest is in the system.

MR. ANGELL: Commissioner Becker.

MR. BECKER: Thank you very much. I listened really with interest to the description of the problems concerning the beef industry and wheat, yet we have in place NAFTA and WTO that deal with many of the relationships that you're talking about, particularly between the United States and Canada and the European community and others.

What benefit do you get out of the law? What help do you get with the NAFTA and WTO in place now, and what can we do about that? What do you suggest in the way of changes?

MR. McDONNELL: As far as trade laws are concerned?

MR. BECKER: I'd like to put the question out to the panel generally with regard to the protections that the WTO and NAFTA is supposed to give to exporters from the United States to be able to deal with the imports on a fair and level basis.

MR. ANGELL: Commissioner Becker, we'll let you ask Mr. McDonnell, which I think you have very clearly, what benefit do your cattlemen get from --

MR. BECKER: Mr. Chairman, I said both for wheat and beef. It's the same situation with the transport of wheat between the United States and Canada, and with the export of beef. I think it's a problem that seems to run across both of them.

MR. ANGELL: Mr. McDonnell, you can answer the question.

MR. McDONNELL: As far as trade flow back and forth, Canada has pretty unlimited flow into the United States on cattle and beef and grains, outside of feed grains, which have to go through the Canadian Wheat Board. And I won't get into all that. That's part of what our cases were about, and it's one of the problems we have with Canada.

In fact, we're losing our cattle feeding industry and parts of our hog feeding industry in the northern states from that.

Since the U.S.-Canada Free Trade Agreement and later NAFTA, the United States went from a 350

million pound deficit on cattle and beef to a 4 billion pound deficit with Canada. That's pretty significant.

When we looked at NAFTA, of course, with Mexico, we did have an elimination of the tariffs on imports into Mexico, which has reversed the trade flow.

According to Montana State University Trade Research Center (Policy Issues Page No. 12) published, we went from a 357 million pound deficit in 1990 to a 200 million pound surplus in 1998. This 557-million-pound change was credited by MSUTRC with improving the value of our cattle \$2.12 a hundredweight, which is approximately \$25 a head.

When you look at Canada, just the increase alone in the trade deficit since 1907 is an additional one billion pounds using the same supply-price relationship, then it's only rational to conclude that the increase in the Canadian trade deficit on cattle and beef is costing U.S. producers really \$50.00/head.

I think one of the problems I see with NAFTA -- and we do a lot of business in Canada. In fact, we shipped breeding bulls up there last week. And we've maintained some good friends.

What we've seen is a tremendous increase in beef coming into Canada, from Argentina, Australia and New Zealand, forcing their product down here into the United States.

Somehow we need to address this harsh point through our free trade agreements, because you really leave the American producers susceptible to what I call laundered ag products coming in through our free trade agreements.

Right now, Europe has made a free trade agreement with Mexico. We're going to have the same problem, because now we're going to have to compete for that Mexico market with Europe, and they have some tremendous export subsidies.

These issues, along with other unfair trade practices, will continue to weigh heavily on agricultural producers. They need to be addressed and addressed soon.

MR. ANGELL: Thank you, Mr. McDonnell.
Commissioner Lewis.

MR. LEWIS: Mr. Swenson, I'd like to ask you a question. This is like a devil's advocate question.

The argument is made that, when we buy automobiles or steel or clothing from overseas, we're helping consumers because they're buying things at a lower price, and we're providing competition for American companies so they'll have to improve their efficiency.

And we're having foreigners essentially finance our consumption and our investment, so it's really good for America, the deficits are really good for America.

Why wouldn't this also be true of agriculture? Why wouldn't it be good for America if we buy more grain and agricultural goods from overseas and we're selling overseas, and we're again having the foreigners subsidize our consumption and our investment?

MR. SWENSON: Well, I think in a textbook that makes sense. But in reality, I don't think it carries any water.

And when you take a look at cheap imports that come in that are imported by a firm in this country from another country, they're going to take

that markup, even though they've obtained the product at a cheaper price.

And they may have taken advantage of currency difference, they may have taken advantage of export subsidies, they may have taken advantage of whatever tools are out there for them with which to move a commodity of any type on an international basis.

And they're going to charge the consumers whatever the market will bear. So I don't think it has a result.

One of the things they say in the United States on food is that we spend less of our disposable income on food than any country in the world.

That's because our standard of living is higher than any country in the world, and that's that our average income has gone up faster than the rate of inflation.

I mean, let's take those things into consideration when we make those broad statements and those broad judgments.

When you take a look at the real reality, it gets back to a number of the points raised. If you want to deal with trade deficit reduction, you're going

to have to look at currency, and that's the only way to level the playing field.

If you want to take a look at us being competitive in the world market, we're going to have to deal with currency.

We can open up China, we can lower the tariff and access to China. But if we're still dealing with a currency difference with Argentina or Brazil or with Europe and dealing with their export subsidies, what are we going to do to gain access to that market in China, even though they lowered the tariffs?

We've got to make sure that we deal with the issues that deal with our trade deficit. And to me, it comes back to, I think the number one issue is currency.

MR. ANGELL: I think the four of you have made a compelling case. And I just wanted to say that I think agriculture is in the same kind of a problem as other commodity producers.

MR. SWENSON: Every other sector. Absolutely. I don't disagree with that.

MR. ANGELL: Commissioner Zoellick.

MR. ZOELLICK: I'd like to just try to understand what you gentlemen mean by fair and equitable, which are two terms you've used a lot.

All of you stressed exports, you know, with some passion.

Do any of you import anything? And do you ever use goods produced abroad to lower your costs? Do you ever buy clothes or cars or food from abroad or different places?

Because some of your comments left me confused. Some of them suggested that it was unfair if we buy more goods from a country than it buys from us. And so I'm trying to figure out, should the same be true for them?

And what brought this home to me, actually, was your point, Mr. Johnson. About 20 years ago, my wife worked for your union when it was trying to unionize the staff, and the union wouldn't let the staff unionize. So I'm trying to get a sense of what's fair and equitable here.

And so, I don't know. Mr. Fisher, you seem to be the one who actually still believes in some form

of competition in the world, so maybe you can tell me what fair and equitable means.

MR. FISHER: Mr. Zoellick and members of the Commission, I do have a very strong appreciation for being able to access the world market.

My illustration of half of the U.S. wheat crop having to find a home in the world market, I think, is very compelling for U.S. wheat producers to have as open access to the world market as they can.

I also feel that we have been short-changed in the U.S.-Canada trade agreement which preceded NAFTA.

One of the things that -- there are several things that bother us about that. But one of the things I think that was grossly in error was the fact that they allowed the so-called initial price in Canada to be defined as their acquisition price.

And this has -- it gets complex -- but it relates to the anti-dumping laws and those kinds of relief mechanisms.

So before you start the discussion, you're already at a disadvantage with the Canadians, because their cost of acquisition is defined at a ridiculously

low level. And so, in effect you're beat before you start.

Those kinds of things need to be straightened out. I think there have been other comments made today that would suggest that there are some flaws, certainly, in these agreements that obviously need a great deal of work, and we as wheat producers have suffered under the impact of some of those flaws.

To not enter into any agreements to potentially give yourself an expanded opportunity to trade I think would also be shortsighted.

But we do need to be aware of fairness and the equitable nature of these agreements. There should be a manner of reviewing and correcting some of those mistakes and problems that have been perpetrated by subsequent agreements.

MR. ZOELLICK: Let me just ask for some follow-up information just to help me let you know where my head is on this.

Equitable results, to me, is not equitable. I mean, that's not the way markets work, it's not the way competition works in any business.

Some of the things you've pointed out, and some points made by others, about the Canadian wheat case, for example, go to a question of whether there are limitations on competition on the Canadian side related to the Marketing Board and the prices set.

And that strikes me as an important area to try to drive at. And so I would find that useful if we get more information on that.

MR. ANGELL: I think it might be helpful for a little fuller explanation concerning the Canadian Wheat Board's price paid to farmers versus the price for sales from the Canadian Wheat Board. Yes.

MR. FISHER: Chairman Angell, I would be glad to try to add additional light to a very complex pricing issue.

The Canadian Wheat Board has a monopolistic procurement system in which it acquires all of the wheat, all of the barley, and all of the durum from its producers. Producers are paid an initial price, and then total sales revenues accumulate in a pool account.

And at the end of the year, if they have done well, they make a secondary payment called the final payment.

And that -- what that allows them is the liberty of pricing all over the world without the true risk of replacement cost from that time that they've paid that initial price, which is set at 70 percent of the real value of the commodity.

So it allows them free rein to price at levels lower than the U.S., lower than a lot of or possibly any of the U.S. wheat distributed at fair market value throughout the world.

MR. ANGELL: In other words, the Canadian Wheat Board does not have a market-determined price that indicates what the acquisition price is. It is simply their monopolist decision in regard to what that price will be?

MR. FISHER: That is correct. They are relieved of the responsibilities of replacement cost that any other grain-trading firm in the world would have to face in the market every day.

MR. ZOELLICK: For example, when you're talking about Australian beef, unless the Australians get subsidized, they sell their beef to Canada, well, that's what competition is about.

And if, you know, there is a lower price because there's a greater supply, sorry, guys, but that's the way it works in the business world, yours or anybody else's. So subsidies are one thing, monopoly power is another thing, anti-competition another thing.

But I think it's important to distinguish those arguments from the fact that there are winners and losers in competition, and that's one of the things that made this country great.

MR. ANGELL: Commissioner D'Amato.

MR. D'AMATO: Thank you, Mr. Chairman. What I get from the testimony is that we have massive anti-competitive behavior by foreign governments that's causing these distortions. I may be wrong.

But I want to commend Mr. Swenson for the radical proposition that we should pay more attention to implementing our current trade agreements that we've signed with these countries before we go further.

And let me ask you this question: Do you think that we ought to have a more performance-based trade policy such as we had in the arms control arena with the Russians for years, which were that you didn't

sign another agreement until the previous agreements were implemented?

And that we ought to have a go-slow policy on more trade agreements until we have some kind of a performance-based test on the many agreements that we've signed with the Chinese?

This is totally missing from the Chinese debate, that they should somehow be implementing their previous trade agreements. This is totally missing from the debate, as I understand it.

But should we try to emphasize performance-based standards, previously signed trade agreements, before we go further with massive new agreements that are wide ranging new agreements with the Chinese or the Canadians or whoever?

MR. ANGELL: Mr. Swenson, your answer.

MR. SWENSON: Yes. I believe that we should have a performance-based evaluation, and a performance base that goes just beyond the volume of what has been traded, or has it been of benefit to the uniform trading?

What is the benefit to the producers of the commodity? What is the benefit to the overall economy?

If competition is just to derive the lowest cost producer, no matter where it is in the world, then, that is not what made our country great. That is not what made our country great.

What made our country strong was that we had individual opportunities, and we had structures and rules and regulations in which we all operated on the same basis. That doesn't happen in the global economy.

We don't have -- you know where your tee shirt and your suit come from. You don't know where your T-bone comes from. That's the difference.

We don't have equalization in chemicals. They can use DDT in Mexico. We can't use DDT in this country.

MR. D'AMATO: Should I care as long as it's safe?

MR. SWENSON: Absolutely.

MR. D'AMATO: Why?

MR. SWENSON: If DDT is safe in Mexico, why can't we use it in the United States? Because there's some scientist that says it causes cancer. And if it causes cancer in the United States, it's sure in Hell got to cause cancer in Mexico.

And that's then shipped back into this country unlabeled, put on the shelves for the American consumer to consume.

And our border inspection doesn't --

MR. D'AMATO: But, see, that's a safety issue.

MR. ANGELL: Commissioner Wessel.

MR. WESSEL: Let me continue -- thank you -- with the issue of food safety. And Mr. Johnson, I'd like your response on this.

In March, AP reported that the U.S. Department of Agriculture is going to cut its plant inspections.

During the Fast Track negotiations some years ago, the number one issue among the American people as it related to trade at that time was the question of food safety.

What's your view of the question of the food inspections, as you represent a number of the people in these facilities, and what can we do to continue the confidence that people have in our food supply?

MR. JOHNSON: Well, for workers, Hamlet, North Carolina, is a tragic example where many people burned to death in a poultry processing plant.

MR. WEIDENBAUM: Was that because the ag inspector told them to keep the gates locked?

MR. JOHNSON: It's probably more than one reason. Some say the doors were locked because people were stealing a few pieces of chicken.

MR. WEIDENBAUM: I thought the USDA inspector wanted the doors locked.

MR. JOHNSON: It depends on who you talk to.

If you're talking about food safety and inspections the American public doesn't want that compromised.

I think we're entitled to safe food, and I think workers are entitled to a safe work environment.

And I think in the North Carolina case, the number of inspectors had been drastically cut.

So it depends on how you are directing the question with regard to the food safety.

MR. ANGELL: Commissioner Lewis.

MR. LEWIS: This is for Mr. Fisher. On page 2 of your written submission, the second paragraph, you said many of the promises made to U.S. wheat producers at the inception of the current Farm Bill have yet to be implemented. Could you be more specific on that, please?

MR. FISHER: Yes. Mr. Lewis and members of the Commission, I would be happy to.

I think one of the major outstanding promises that was not kept was the fact that there was funding available for the export enhancement program, which is our brand of an export subsidy for wheat, if you will.

The program has basically been in mothballs since July of 1995. We have not been able to use it for 5 years. Yet, the money has been appropriated for EEP each year. That's a puzzling feature of this Farm Bill for U.S. producers.

There are several other unfulfilled promises, certainly, but that is one of the prime cases.

MR. LEWIS: After this hearing, if you could give us some specific examples that we could

include in our final report, it would be really very helpful.

MR. FISHER: Certainly. I have some data in the written report that I did not mention for the sake of time in the oral testimony.

But we have in that testimony described declining export trends, there are examples of declining export volumes and export values that are available from the overseas offices of U.S. Wheat Associates and from our North Dakota Wheat Commission on that matter.

I think one of the real mistakes in this matter is that it does not allow producers that ability to -- in the sake of fairness again -- to go out and compete with that biggest bat that we heard about in earlier testimony, as the Europeans continue to use their export subsidies after continuing a domestic policy that over-produces, adds to the world supply burden and depresses prices. They then go out and basically dump it on the world market with a huge export subsidy.

We have no big bat in the line of equipment to use right now. It's out there, but it's just mothballed.

MR. LEWIS: Thank you very much.

MR. ANGELL: The Commission wishes to thank each of the four panelists for your very concise and precise statements. We appreciate hearing your views.

We will move on, then, to the third panel. The Commission moves on to a third distinguished panel.

I want you to understand that farmers are just as distinguished as you can get. But we certainly include economists -- at least this Chair does -- economists and professors in the list of distinguished persons.

The first panelist is the representative of the Federal Reserve Bank of Kansas City's new rural research -- I lost my page.

Dr. Alan D. Barkema is Vice President and Economist for the Center for the Study of Rural America at the Federal Reserve Bank of Kansas City.

And Dr. Barkema, I think you made your timing to come to the Kansas City Fed just as I was leaving the Board of Directors.

So we'll look forward to your analysis of
the agricultural situation.