

DR. HARL: Thank you very much, members of the Commission. I appreciate the opportunity to be here and to provide some comments on agricultural trade and its importance to U.S. agriculture.

Let me begin by putting it in context in the sense that, in my view, agriculture does have serious problems today. I think it has three overarching, overriding problems. All relate, to a degree, to trade and globalization.

One, of course, is financial. I'm headed to west Kansas to do my first farm bankruptcy seminar since 1988. And you'll notice the color of the seminar manual -- red. This is for lawyers and others who advise farmers. So we're back in that era.

Certainly, that's one aspect, price and income policy with implications for farm income.

The second problem, and I think the more serious, though, is the dramatic transformation of the structure of agriculture that's going on.

And it's a combination of two things. On the one hand, it's the concentration on the input side, unprecedented in recent months, and concentration on the output side, the processing and handling side.

And producers are sitting as perfect competitors between these towering examples of concentration on the two sides. On the other hand, concentration is combined with vertical integration from the top down.

To me that is a deadly combination, and we won't take time to go into the reasons why, but I am very concerned about that.

We don't yet have a shared vision of what agriculture should look like in the next century, or even the next half-century.

I think the priority for the sector needs to be, what is that vision? Do we see a sector of independent entrepreneurs, or do we see a sector quite different from that?

The third issue, which my colleague, Dr. Barkema, has touched on, is the GMO issue. We'll have a few words to say about that.

But first the good news. And the good news is that we're seeing, in the last few weeks, the last several weeks, reports of much better incomes in countries that really matter, countries that have fairly high income elasticity of demand for food.

Asia has turned around in a surprisingly strong recovery, two or three times better than many forecasters were saying just a year ago.

South Korea's GDP was up nearly 11 percent last year. The country still has problems, but they are far better off than they were, and South Korea is one of our major customers, by the way.

Malaysia has experienced a 6 percent growth in GDP in '99. Indonesia in the fourth quarter of 1999 grew at about 6 percent. The whole year didn't look quite that good. Mexico, about 3.7 percent up last year. The Central and Eastern European countries, Poland and Hungary are doing well and are expected to grow by about 5 percent this year.

Even in Russia the latest numbers show a striking growth in that country in the last quarter of 1999.

Clearly the last frontier for increasing food demand is the Third World. That is the part of demand that's easiest for us to capture.

It's important for us to take the high road and support Third World development. I think that is something for which the whole world is supportive.

It's also about the only answer we have to the huge capacity of agriculture to produce. That capacity is growing and is likely to grow faster than our ability to get it sold.

Why the better growth in food importing countries? Lots of reasons: reform of financial institutions, changes in currency arrangements, reforms of legal systems, to mention a few of the reasons.

They're doing pretty much the right thing, maybe not as fast as we'd like.

But one of my major concerns right now, in addition to the structure issue and price and income policies, is the matter of GMO's, and the potential impact of GMO's on trade.

The U.S. has lost somewhere between 100 and 120 million bushels of export corn to the EU in recent months.

In '97-'98, exports of soybean oil meal to Europe totaled about 1.78 million metric tons. Right now it's running about a tenth of that, 0.18 million metric tons.

Several countries have announced labeling as a means to communicate, for the processors and

others, to consumers what they are consuming. The EUs position is a 1 percent tolerance; Japan has announced a move toward a low tolerance for food corn, indeed announced it zero last month.

A zero tolerance would be impossible for us to meet.

But in other countries, a 5 percent tolerance appears likely in South Korea, with labeling in Australia and New Zealand, the Philippines, Thailand, India, even Russia.

So although the consumer is king -- and we need to always remember that, consumers are our boss -- nonetheless, it's the processors who are driving this process.

Processors are not risk takers, and they're the ones, both abroad and at home, who are essentially driving this process, because they don't want to take risks, and if they think there's a marketing advantage, they are very quick to take a position favoring non-GMO ingredients.

We saw that with Frito-Lay. We've seen that with numerous processors in Japan, in Mexico, and in Europe.

The GMO problem is likely to be resolved on the basis of three economic issues. I guess you'd expect someone who is half an economist to conclude that. But let me just quickly mention what they are, because I think they're important.

Number 1 is the demand for GMO and non-GMO crops. That decision is squarely in the hands of consumers, worldwide. And I think we will move toward labeling, worldwide. I think we'll have labeling in the U.S. within the next three or four years.

Second is the supply of GMO and non-GMO crops, and that's squarely in the hands of producers as they make seed decisions. Decisions made by them this year apparently produced a slight reduction in planting of GMO's. Seed decisions will continue to be important next year and the years following.

And we're likely not to see a match between demand and supply. And we're going to go through an interactive process until demand and supply are in relative equilibrium.

But the third factor, and the big one, is the cost of maintaining a two-track marketing system. We're ill equipped for that.

A key factor is tolerances. If we have a 5 percent tolerance, I think we could live with that.

Why do we have to have tolerances? Because, number one, we mechanically contaminate, in the combine, in the planter box, in the auger, in the bins and the wagons, everywhere along the way. So we have to have some tolerances to allow for low levels of mechanical contamination.

But the factor that's even more difficult is pollen drift for corn, in particular. In the summer, in the Corn Belt, there's a big cloud of pollen. How far will it drift? We don't know, because it depends on weather conditions.

We don't even have a very good idea as to what kind of a barrier we need, what kind of a buffering zone.

So what do we need? We need testing at every point of commingling, so we know the compositions of the commodity. We don't have that. And we're not moving very rapidly to implement testing at every point of commingling.

Second, we need reasonable tolerances. Third, we need a program directed at producers in how

to avoid mechanical contamination and the separation distances needed to avoid contamination from pollen drift. And we need liability rules. That's from the other half of me, the lawyer half of me.

We're getting question after question from producers on this. Moreover, the organic regulations that have been out just a few weeks talk in terms of no contamination from GMOs.

Already producers are receiving letters from their neighbors saying, "Be it known to you that I am producing organic this year, and I do not want any of your pollen contaminating my organic crop."

So who is responsible? Well, in our legal system, generally whoever creates an offensive condition is responsible, whether it's spray drift or fumes or whatever it is.

This has burst on the scene just in the last few months, and we're ill equipped to deal with it.

Turning to trade issues specifically, agricultural trade is notably volatile. We need three things, in my view, from the policy process.

First, we need a stable fiscal and monetary policy. I haven't said much about that. My predecessors have probably said enough. But I do believe that is important.

Number two, we need Third World income growth. And I think that should be a high priority.

And third, we need to address the GMO issue. It has the potential to import trade in agricultural commodities significantly.

Now, let me say just something very quickly here about who gains and who does not gain from exports.

In agriculture, we generally tend to think that agriculture benefits from exports.

But when we look through that, there are four groups who may gain from exports. Clearly those who supply inputs gain. Those who handle, store, and dry and process outputs gain. Landowners gain. How about producers? Only in the short run that's because land operators are the world's best economic citizens. Give them half an incentive and they capitalize any additional profits into cash rents, and then, into land values.

So that's why the producers in the role of producer, gain only briefly before they give it away. Landowners benefit from increased exports.

So there's a great deal of importance that attaches to the dynamic of who gains and who does not gain from increased exports.

I'm an inveterate free trader. I think free trade is important. But we do need to realize what the major drivers are.

I have 13 seconds left. And let me just, in that 13 seconds, say, competition is the most important single feature of our economic system. It is critical. And we must, at all costs, defend free, open and competitive markets.

And, I believe, we need to look closely at the vision for agriculture as embracing a sector of independent entrepreneurs.

We have a good economic record of performance as independent entrepreneurs. It is a good model.

Thank you so very much. I'll be glad to take any questions.

MR. ANGELL: Dr. Harl, thank you for your statement.

Our next panelist is Dr. Dermot Hayes, Professor of Economics and Professor in Finance, Iowa State University. We look forward to your testimony.