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Submitted Electronically

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TO: U.S. Senate Committee on Agriculture, Nutrition and Forestry

RE: Full Committee Hearing: Perspectives on U.S. Agricultural Trade

The National Grain and Feed Association (NGFA) and North American Export Grain Association (NAEGA) submit this joint statement for the record as a follow up to the Senate Committee on Agriculture, Nutrition and Forestry's Sept. 13, 2018 hearing concerning perspectives on U.S. agricultural trade. These comments seek to provide information on the performance of U.S. agricultural trade with respect to the grain, feed, grain and oilseed processing, and export sectors.

NGFA, established in 1896, consists of more than 1,000 grain, feed, processing, milling, exporting and other grain-related companies that operate more than 7,000 facilities nationwide, and handle more than 70 percent of the U.S. grain and oilseed crop. Its membership includes grain elevators, feed and feed ingredient manufacturers, biofuels companies, grain and oilseed processors and millers, exporters, livestock and poultry integrators, and associated firms that provide goods and services to the nation's grain, feed and processing industry. NGFA also consists of 34 affiliated State and Regional Grain and Feed Associations, and has strategic alliances with NAEGA and the Pet Food Institute.

NAEGA, a not-for-profit trade association established in 1912, consists of private and publicly owned companies and farmer-owned cooperatives that are involved in and provide services to the bulk grain and oilseed exporting industry. NAEGA-member companies ship and support the vast majority of the highly competitive, sustainable and fungible U.S. grain and oilseed export supply. NAEGA works collaboratively around the world to improve and maintain the trade of grains, oilseeds and other agri-bulks by informing industry and addressing both commercial and official practices.

The U.S. food and agricultural sector is the world's largest, most productive and most efficient. U.S. farmers, ranchers and agribusinesses produce and market the safest and most affordable food supply the world has ever seen, providing unparalleled food security to domestic and world consumers. The U.S. food and agricultural sector has benefited greatly from free-enterprise and market-based policies, nearly 200 million acres of prime farmland, enterprising producers and agribusinesses, and secure and reliable access to foreign markets. Today, U.S. agricultural producers and agribusinesses compete successfully in the global market for agricultural products ranging from raw commodities to value-added goods, such as meat, poultry, dairy and biofuels, adding value and creating jobs in communities throughout the nation.

The economic multipliers associated with the U.S. food and agricultural sector accrue to the broader U.S. economy and to rural and urban communities alike. According to data from the U.S. Department of Commerce, as well as analysis conducted by the U.S. Department of Agriculture, the food and agricultural sector supports more than 15 million U.S. jobs, creates more than $423 billion in annual U.S. economic activity, and represents the single largest U.S. manufacturing sector – constituting 12 percent of all U.S. manufacturing jobs. Every dollar in U.S. agricultural exports generates an additional $1.27 in U.S. economic activity.

Much of U.S. agriculture and the grain, feed, processing and export industry's value to the U.S. economy and employment is generated through trade. And while most agricultural products handled by NGFA- and NAEGA-member companies produce significant trade surpluses for the United States, NGFA and NAEGA fully recognize and affirm the benefits of two-way trade. Two-way trade enables U.S. agricultural producers and agribusinesses to source farm inputs, such as fertilizer and other farm inputs from other countries that have a comparative advantage. Sourcing from the most economical origin lowers U.S. agricultural production costs, enhances U.S. farm income and strengthens the global competitiveness of U.S. food and agricultural exports.

Perspective on U.S. Agricultural Trade for Grain, Feed

Trade with Trade Agreement Partners: Grain and feed trade with the United States' trade agreement counterparts is especially vibrant. The United States is a leading producer of grain and feed products, and runs a significant trade surplus. Largely as a result of the enhanced market access achieved through the trade agreements, the balance of trade surplus for U.S. grain and feed commodities increased from 22.5 million metric tons in the year prior to trade agreements entering into force to 62.2 million metric tons in 2017. Most of the U.S. gains were in Mexico, although sizable increased exports also were achieved in Colombia and Peru.

Ratification of trade agreements has led to the elimination of nearly all grain and feed tariff barriers that previously restricted U.S. access to these markets, and in many cases has either leveled the playing field or provided the United States with a competitive advantage over its foreign competitors. Negotiation of trade agreements and subsequent efforts to encourage regulatory cooperation and facilitate trade also have helped address non-tariff trade barriers, such as those associated with sanitary and phytosanitary issues.

As a result, U.S. trade agreement counterparts have become consistently large export markets for U.S. agricultural products. Following the removal of market-access trade barriers made possible through trade agreements, members of NGFA and NAEGA have invested in strategically located physical plants and logistics to facilitate the efficient sale and shipment of agricultural products. U.S. trade agreement counterparts also have invested in facilities to cost-effectively import U.S. agricultural products. These strategically planned business investments that reduced transportation costs and integrated supply chains were made possible by the removal of market-access barriers through trade agreements, enabling U.S. agriculture to reliably and competitively serve these growing markets.

In addition, trade agreements have enabled specialization and created opportunities for niche markets. For example, the United States is well positioned to produce and supply abundant and competitively priced corn and soybeans. Meanwhile, other countries are competitive suppliers of other commodities, such as oats, canola and certain classes of wheat demanded by U.S. consumers. This specialization has freed up U.S. acreage for other crops for which the United States has a strong comparative advantage. Moreover, trade agreements have created opportunities for U.S. exports of value-added agricultural products, such as meat, dairy and biofuels, that are produced in large part using U.S. grain and feed products and their co-products. Consequently, countries with which the United States has trade agreements indirectly import a large quantity of U.S. grains, oilseeds and feed as value-added agricultural products, contributing to U.S. manufacturing jobs in and related to the food and agricultural sector.

In short, the U.S. food and agricultural sector has benefited immensely from market-access gains achieved under U.S. trade agreements with other countries. However, in the time since such trade agreements took effect, economies, markets, technologies and supply chains have evolved. NGFA and NAEGA recognize this evolution and welcome the opportunity to work with the Trump administration to preserve all current market access and tariff concessions achieved for U.S. food and agriculture in current trade agreements, while modernizing them to address the challenges of 21st century global trade. Paramount among these challenges is to address the growing number of non-tariff barriers that distort and slow trade flows, and undermine market access. Given the opportunity to modernize U.S. trade agreements with other countries, we urge U.S. trade negotiators to work with our trading partners to make existing agreements more effective in preventing technical, sanitary and phytosanitary (SPS) barriers to trade, encouraging higher levels of regulatory cooperation, transparency and professionalism, and promoting the convergence of standards and rules to level the playing field and ensure against unjustified, unscientific and discriminatory regulatory initiatives.

Trade with the European Union: As noted previously, the United States is one of the world's most competitive exporters of food and agricultural products. In each of the last nearly 50 years, the U.S. food and agriculture sector has produced a trade surplus, narrowing the overall U.S. trade deficit and contributing to U.S. economic growth and job creation.

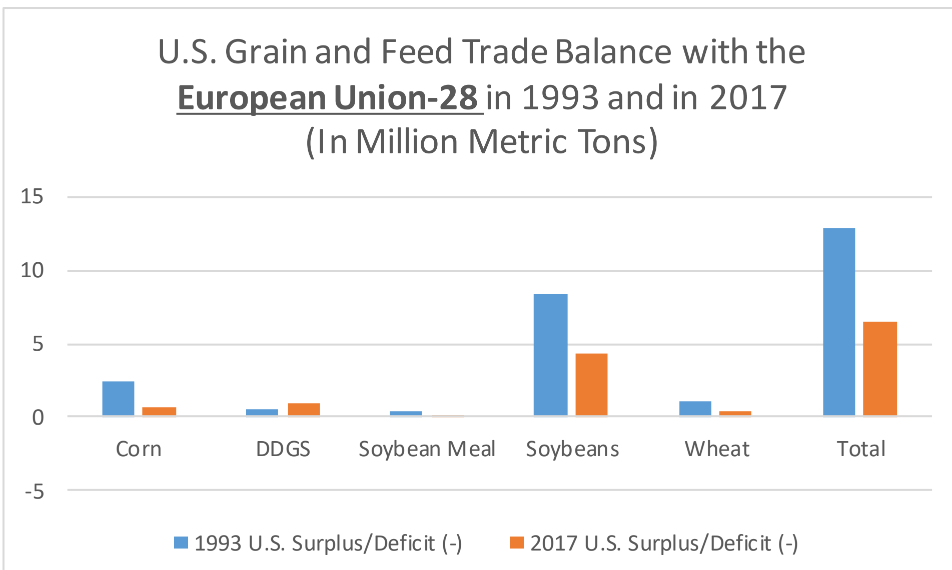
Despite this, the U.S. food and agriculture sector still experiences a significant trade deficit with one of the largest markets in the world – the European Union (EU) – with which the United States does not have a trade accord. While U.S. grain and feed exports continue to remain competitive in the European Union, with a positive but falling trade balance, overall food and agricultural exports, including high-value and processed goods, have experienced a significant trade deficit.

U.S. Agricultural Trade Balance with the European Union-28 in 1993 and in 2016 (In Billion $)

Commodity	1993 U.S. Surplus/Deficit (-)	2017 U.S. Surplus/Deficit (-)
Agricultural Products	-$4.1	-$10.7

Source: U.S. Department of Commerce, Bureau of Census

Overall, the U.S. food and agriculture sector's trade balance with the EU is a negative $10.7 billion**.** Meanwhile, the United States currently runs a trade surplus for corn, DDGS, soybeans, soybean meal and wheat with the European Union. But that surplus has slipped over the last 20 years. In 1993, the United States exported 12.8 million metric tons of the aforementioned commodities to the European Union, but by 2017, the United States was exporting only 6.7 million metric tons.



At the heart of the U.S. food and agriculture industry's declining export balance with the EU is its non-science based and WTO non-compliant regulatory model. EU policymakers and regulators assert a 'precautionary' approach to regulatory decisions that attempts to factor in a variety of socio-political considerations for agricultural biotechnology, pesticide residue, animal hormones and other policies. Meanwhile, the United States relies on a science- fact- and risk-based model for regulation, and is committed to an approach that properly relies upon competitive market forces. The EU's insistence on this precautionary approach, despite the WTO's ruling that it often relies on unscientific principles that could violate its WTO commitments, puts U.S. exporters at a severe competitive disadvantage and creates an inappropriate market environment that often favors European domestic interests.

Among these disadvantages are many market-access barriers that the EU enforces against U.S. grain and feed exporters, including:

- Scientifically unjustified and unreasonably low pesticide and maximum residue limits (MRL) on grain shipments.
- Employing an ill-functioning and non-science-based biotechnology regulatory process that often results in biotech traits remaining unapproved for import long after being scientifically assessed and approved as safe for food, feed and for further processing in non-European Union countries, creating rejection risk for U.S. exporters of grain, ingredients and processed commodities, and thereby bringing U.S. exports to the EU to a standstill.
- Sampling and testing for mycotoxins at the destination on imported grain shipments instead of the normal procedure of recognizing U.S. Department of Agriculture Federal Grain Inspection Service certification of quality at export loading. Testing at destination creates economic risks for U.S. shippers and reduces U.S. export volumes to the EU.
- Using a hazard-based instead of a risk-based approach for sanitary and phytosanitary regulations.
- Banning growth promoting hormones in imported beef that indirectly reduce U.S. grain and feed demand for U.S. cattle production.
- Prohibiting the use of any substance other than water to remove contamination from animal products unless the substance has been approved by the European Commission. U.S. exports of beef, pork and poultry to the EU have been reduced significantly as a result because the European Commission has failed to approve various pathogen-reduction treatments commonly used to kill pathogens on meat after slaughter.

Trade with Japan: By contrast, Japan has been a leading, science-based and consistent agricultural trade partner with the United States. In 2017, Japan imported $11.9 billion in U.S. agricultural products and exported $0.4 billion. However, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will put the United States at a major competitive disadvantage compared to other agricultural exporting countries that are parties to the accord. The CPTPP will negatively impact many U.S. exports, including, but not limited to, wheat, soybean oil, beef, pork, rice, poultry and barley.

The United States must act quickly to negotiate trade agreements to encompass Asia-Pacific nations to counter the negative impact CPTPP will have on U.S. agricultural exports.

Trade with China: It’s no secret that U.S. soybean exports to China have been the principal success story until late last year and early 2018, after USDA’s Animal and Plant Health Inspection Service inappropriately agreed to provide an additional declaration for a quality factor – foreign material exceeding 1 percent – on phytosanitary certificates as a proxy for weed seed content. (Phytosanitary certificates are reserved for denoting plant and pest risks, not quality characteristics like foreign material). The uncertainty created regarding how China would treat U.S. soybean imports subject to this additional declaration created market risks that led to a precipitous decline in shipments – which predated China's announcement on April 4, 2018 that it intended to levy a 25-percent tariff on U.S. soybeans after the United States applied tariff countermeasures related to its Section 301 investigation of China's forced technology transfers and discriminatory intellectual property practices. China's imports of U.S.-origin soybeans decreased by almost 5 million metric tons during the December 2017 to March 2018 period, while Chinese imports from Brazil increased by an equivalent amount. An Informa Economics Inc. study conducted for NAEGA, which documents the disruption and economic harm to U.S. soybean exports that the additional declaration caused is attached to this statement.

To eventually restore U.S. soybean exports to China, it is essential that the United States enter negotiations with China to quantify the weed seeds, if any, that are of quarantine concern in China, and to rescind the additional declaration requirement for foreign material on phytosanitary certificates.

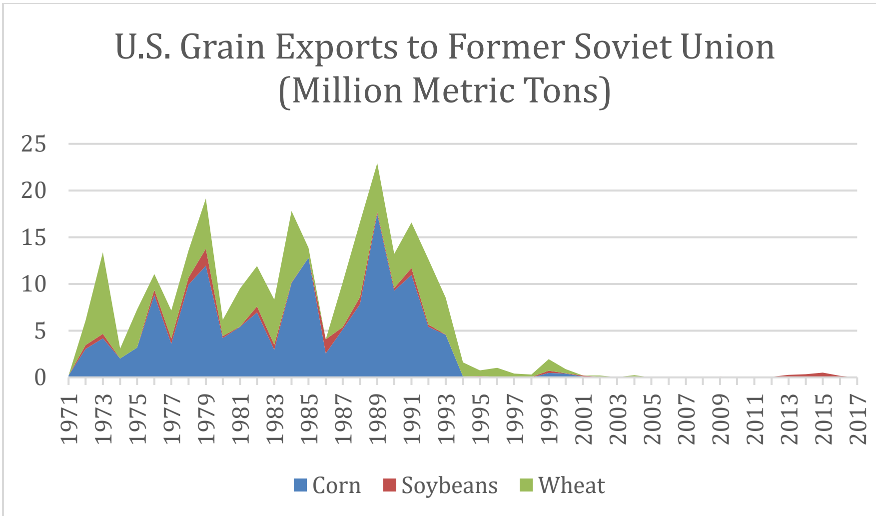
Overall U.S. Trade Position Relative to the Rest of the World

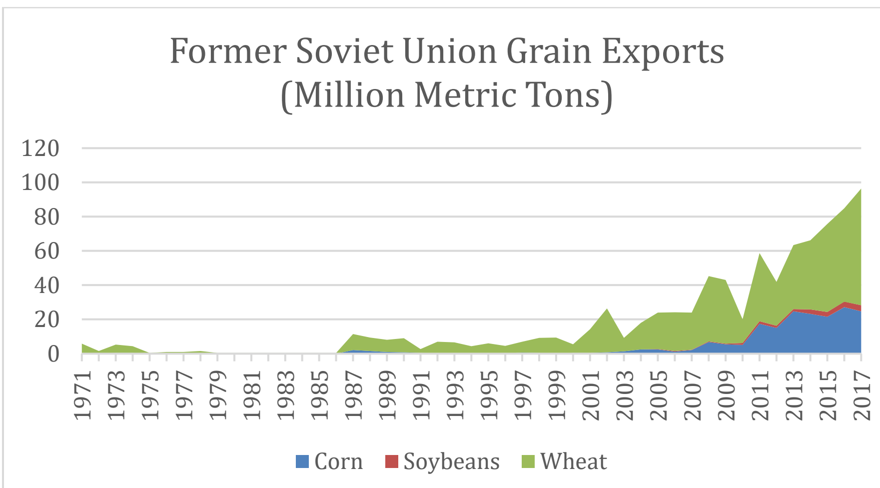
As learned from history, once markets are lost, they are rarely, if ever, completely regained. That was one of the lessons learned from the Soviet grain embargo of 1980, which encouraged expansion of wheat production in the Black Sea region and other areas of the world, gradually diminished U.S. wheat market share, and resulted in Russia today being a major exporter of wheat around the globe.

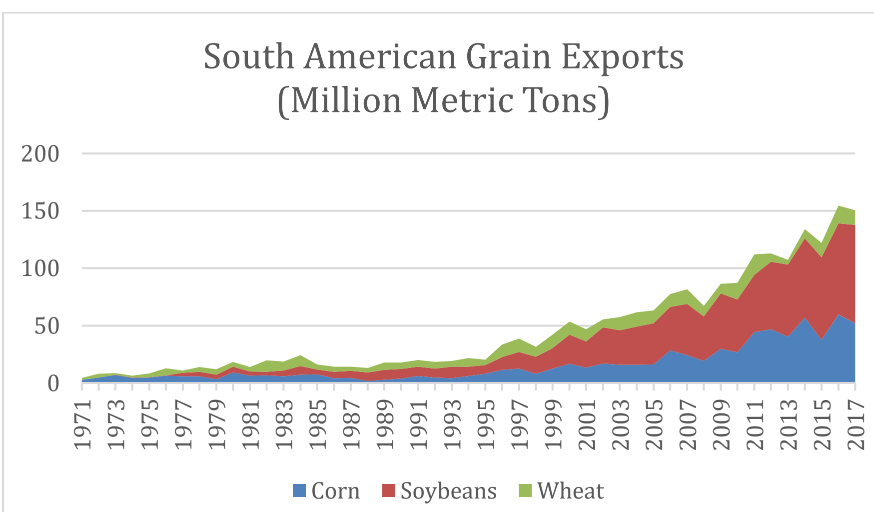
The loss of U.S. market share now is occurring in China and other countries that previously relied on imports of U.S. agricultural products. Those countries are encouraging both increased domestic production and diversifying other sources of supply from around the globe, including from South America. Below are charts illustrating the loss of the former Soviet Union market for U.S. grain exports and the rise of Russia and South America as leaders in grain exports.

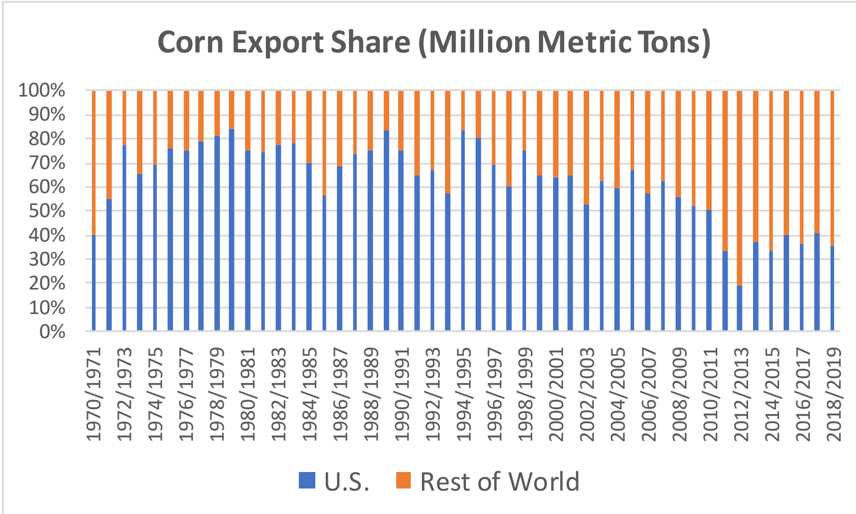
Further below are charts that show a rapid decline in the U.S. grain export share. As recently as the 1990s, the United States had roughly 80 percent of the world corn export share, but that has fallen to roughly 30 percent. For soybeans, the United States commanded almost a 100 percent share of the world export market prior to the 1980s. The United States now exports roughly one-third of the world's soybeans. The U.S. market share for wheat exports is approaching 10 percent, but that had been routinely above 40 percent prior the 1980s.

U.S. agriculture still is strong. But other countries have advanced their agricultural industries and now rival our own. Competition for world agricultural markets has increased significantly and for U.S. agriculture to compete and win, the United States must have access to international markets.


U.S. Grain Exports to Former Soviet Union
(Million Metric Tons)
25
20
15
10
5
0
1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017
Corn Soybeans Wheat


Former Soviet Union Grain Exports
(Million Metric Tons)
120
100
80
60
40
20
0
1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017
Corn Soybeans Wheat


South American Grain Exports
(Million Metric Tons)
200
150
100
50
0
1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017
Corn Soybeans Wheat


Corn Export Share (Million Metric Tons)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1970/1971
1972/1973
1974/1975
1976/1977
1978/1979
1980/1981
1982/1983
1984/1985
1986/1987
1988/1989
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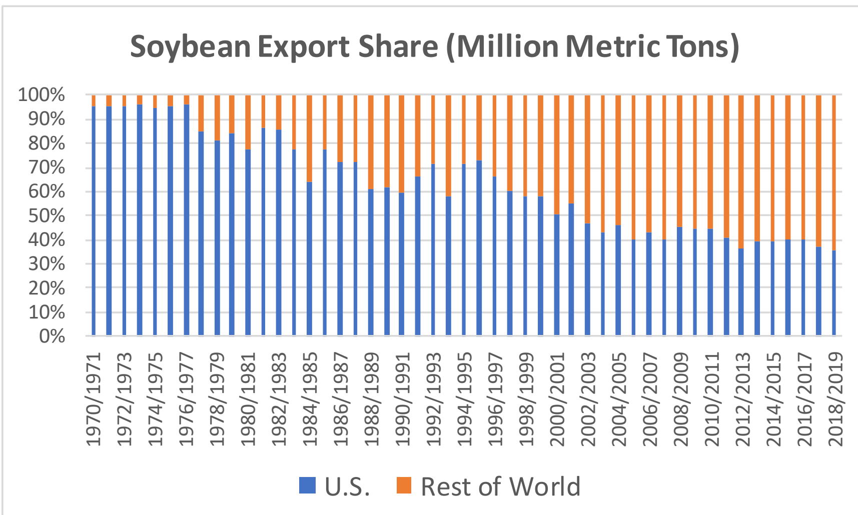
U.S.
Rest of World


Soybean Export Share (Million Metric Tons)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1970/1971
1972/1973
1974/1975
1976/1977
1978/1979
1980/1981
1982/1983
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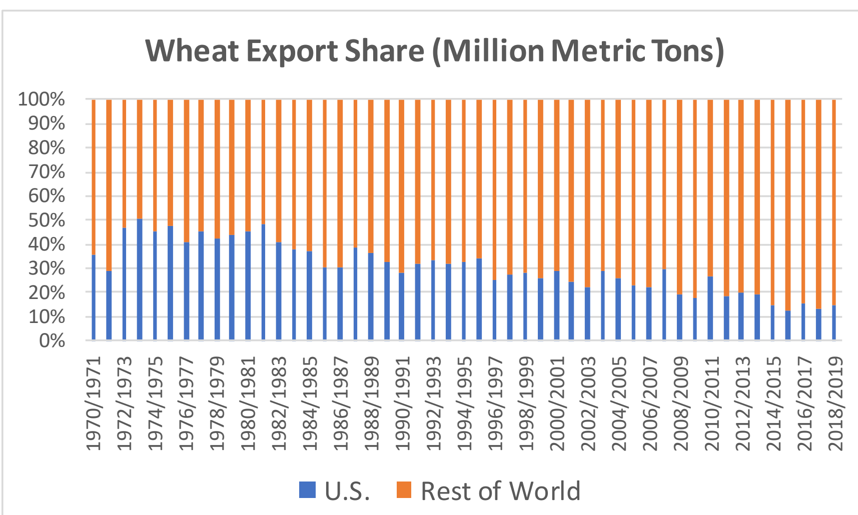
2018/2019
U.S.
Rest of World


Wheat Export Share (Million Metric Tons)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1970/1971
1972/1973
1974/1975
1976/1977
1978/1979
1980/1981
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2018/2019
U.S.
Rest of World

Recommended U.S. Priorities for Trade Negotiations

NGFA and NAEGA seek to work actively and constructively with the Trump administration with a goal to preserve, modernize and improve upon existing trade relationships and create new export market opportunities. Starting with a modernized North American Free Trade Agreement (NAFTA), the NGFA and NAEGA believe that future trade accords should seek to remove the following impediments to facilitate trade:

1. ***Actions at Import*:** Import checks on shipments of individual containers or consignments may present a major barrier to trade in agricultural commodities. When they occur, checks can result in expensive delays and costs for demurrage and potential reexport. Goods may be subjected to inspection, or may even be rejected, without apparent scientific justification.

2. ***Science and Risk Analysis:*** Many SPS-based import bans and restrictions do not conform to applicable regional and international standards and the promulgating authority often fails to provide a science-based risk assessment as required under the World Trade Organization's SPS Agreement. Provisions are needed to effectively force the timely completion of sound risk assessments, with adequate opportunities for public comment.

3. ***Transparency Provisions*:** Agricultural traders often are kept in the dark about the reasons for measures that restrict movement of agricultural products based on alleged SPS and technical barriers to trade (TBT) grounds. All requirements – including those cited previously – should explicitly require disclosure and should be made available to governments, as well as commercial parties, prior to implementation. Trade would benefit from clear and transparent timelines for disclosure and resolution of adverse import checks that prevent or delay import shipments. Further, regulatory authorities should be encouraged to adhere to and abide by transparent and predictable regulatory timelines with adequate opportunity for comment and critique of new or altered regulatory measures.

In addition, we believe modernized trade agreements provide the opportunity to include language to increase transparency and cooperation on activities related to modern agricultural production technologies, including seed-breeding innovations, improving upon provisions agreed to in the Trans-Pacific Partnership negotiations.

To address the aforementioned concerns and issues, NAEGA and NGFA believe modernized U.S. trade agreements with other countries should include 21st century, WTO-plus provisions that include the following:

- Maintaining and expanding all market access, tariff concessions and other provisions that have enabled economic integration in the grain and feed marketplace and supply chains.

- Creating a rapid response mechanism (RRM) that enables the timely and transparent resolution of adverse import checks by importing country customs and plant protection authorities. An RRM should include immediate and detailed notification of the importer or exporter of record within ***three days*** of any risk- detection, assessment and management measures. Further, an RRM should mandate expedited review processes, at the request of the importer or exporter of record, that are completed within 15 days. A properly functioning RRM will increase reliability, reduce risk premiums sometimes associated with agricultural trade, and avert costly demurrage and trade inefficiencies that result when U.S. agricultural exports are detained at customs and border crossings in importing countries.

- Enhancing science-based SPS rules that: 1) promote the adoption of testing procedures based upon international laboratory standards; 2) require export and import checks be conducted "without undue delay"; 3) require documentation of the frequency of import checks and demonstration of the risk factors that justify the import check; and 4) provide for mechanisms to expeditiously resolve adverse import checks.

- Adopting risk-management and risk-assessment procedures that prevent the use of non-tariff barriers that lack scientific merit. Risk-assessment and risk-management procedures should take into consideration reasonably available and relevant scientific data, and should not be more trade restrictive than required to achieve SPS objectives.

- Promoting regulatory consistency and cooperation provisions. Such provisions should encourage the adoption of widely-accepted good regulatory practices and core principles such as transparency, impartiality and due process, as well as coordination across governments to ensure coherent regulatory approaches. The stated objectives should be to provide globally effective measures that eliminate trade-distortive policies and reduce bureaucratic impediments to trade, and that foster trade-facilitative official practices and regulations for which trade agreement-member countries are held accountable. One mechanism for achieving this may be to formally include within trade agreements references to regulatory cooperation bodies including, but not limited to, the regulatory cooperation councils, high-level regulatory cooperation councils, technical committees and cooperative technical consultative bodies that currently exist on an *ad hoc* basis. If doing so, however, NAEGA and NGFA recommend that the updated objectives cited above concerning enhancement of trade-facilitative measures and removal of bureaucratic-related impediments to trade should be included as a specific and high-priority charge for such bodies within the trade agreement text.

- Strengthening efforts to address technical barriers to trade, including through the promotion of transparency and good regulatory practice, convergence or mutual recognition of regulatory standards, and the adoption of no less favorable treatment to national conformity assessment bodies.

- Increasing transparency and cooperation on activities related to modern agricultural production technologies, including seed-breeding innovations. In this regard, NGFA and NAEGA fully support the inclusion of a mutual recognition agreement concerning the safety determination of biotechnology-enhanced and other crops intended for use as food, feed and/or for further processing; and development of a consistent approach for managing low-level presence (LLP) of products that have undergone a safety assessment and are approved for use in a third country, but not yet approved for import by a U.S. trade agreement-member country.

- Enabling innovation of information technologies to improve logistics and regulatory implementation and to facilitate trade. Parties to U.S. trade agreements should be encouraged to recognize electronic signatures and certifications wherever possible and support the electronic exchange of official trade documents including, but not limited to, bills of lading, origin certifications, quality certificates and SPS certificates.

Conclusion

The NGFA and NAEGA are pleased to assist in identifying opportunities to expand U.S. trade opportunities – particularly with China and Asia-Pacific countries – that preserve and build upon the core benefits that have helped the U.S. food and agricultural sector grow U.S. exports and support economic growth and job creation. There is a sense of urgency in completing successful negotiations with Mexico and Canada on a modernized NAFTA, both to provide business certainty for U.S. agriculture and other business sectors, and to demonstrate that the United States still welcomes and values trade accords with trading partners that are willing to provide market access and remove non-tariff trade barriers. Mexico is the primary market for U.S. grain and Canada the top market for U.S. agricultural value-added products.

Likewise, it is urgent that the United States seek to initiate trade negotiations with Asia-Pacific countries, particularly Japan, Vietnam and the Philippines, and to complete ratification of a modernized U.S.-Korean trade agreement. U.S. withdrawal from the Trans-Pacific Partnership trade agreement has created a vulnerable void that foreign export competitors are aggressively exploiting to the detriment of U.S. agricultural exports and our nation's economy.

NGFA and NAEGA also encourage the administration to work with the European Union to eliminate market-access and non-tariff trade barriers to facilitate agricultural trade.

Finally, it is crucial that the United States mobilize and seek to leverage the influence of like-minded countries to resolve long-standing and legitimate structural concerns over China's unfair trade practices and theft of intellectual property.

Regarding future trade agreements, key areas that would preserve and enhance U.S. agricultural competitiveness and facilitate trade include not only expanded market access and tariff concessions, but also improved regulatory consistency and cooperation, removal of non-tariff barriers that lack scientific merit, enabling innovation of information technologies, recognizing comparable regulatory systems for assessing the safety of plant breeding technologies, adopting a LLP policy, and ensuring safe and orderly passage for rail and truck freight transportation.

Lastly, while U.S. agriculture is still strong, our lead is diminishing. Other countries have advanced their agricultural industries and now rival our own. Competition for world agricultural markets has increased significantly and for U.S. agriculture to compete and win in the long-term, United States agriculture must have robust access to international markets. In addition, we should not ignore consumer preferences, which are best met through robust competition elevated by trade.

The NGFA and NAEGA are eager to work actively, constructively and expeditiously with Congress, President Trump and the administration's trade team to address these key areas, and to develop specific strategies to preserve, improve and build upon existing and new trade relationships to benefit U.S. and world consumers.

Thank you for your consideration of our recommendations. We would be pleased to respond to any questions you may have.

Sincerely,

Randall C. Gordon
President
National Grain and Feed Association

Gary C. Martin
President and Chief Executive Officer
North American Export Grain Association