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Testimony

of
U.S. Agriculture Secretary Dan Glickman
Before the Senate Committee on Agriculture,
Nutrition & Forestry
May 7, 1998

Mr. Chairman, I thank you for the opportunity to be here today to discuss agricultural trade. In all honesty, it was a much easier and pleasurable topic to talk about with all of you in 1996 and 1997 which were strong years for American agriculture.

Today, we see many sectors of the U.S. farm economy weakening. Mr. Chairman, with your permission, I would like to enter into the record an excellent article which appeared in Tuesday's Wall Street Journal. It lays out in very human terms the effects of changes underway in U.S. farm policy on farmers and ranchers in certain parts of the country. I know several members of this committee, particularly those from the Northern Plains, have equally poignant stories.

As important as trade is to future farm incomes -- and their can be no question that in the long-term trade will be the primary engine of farm income growth -- these stories remind us that trade exclusively does not constitute a sturdy farm safety net.

That is one lesson we are learning due to world economic conditions today. Current projections for U.S. agricultural exports stand at $56 billion for this fiscal year. That's down $4 billion from last year, and this number could drop further.

That said, we do have significant trade success stories to report. U.S. agricultural exports to Mexico and Canada are looking at record highs again this year. Our exports to Mexico may leap up a good 15% to 20% to about $5.7 billion. Thanks to the hard work of USDA and USTR, the Brazilian market is now open to U.S. wheat, folks in Taiwan are buying U.S. meats and rice, and U.S. pork producers are selling in the Phillippines.

Yet overall, there's no escaping the fact that agricultural exports have been tripped up by factors beyond our control. If you look at the trajectory of U.S. exports over the past year and a half. In the first six months of 1997, you see agriculture barreling ahead with strong export growth. Then, you see a leveling off, and toward the end of last year, and so far this year, you see a decline.

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Lay over this image, the trajectory of overall U.S. exports, and you get a similar arc. Why? Because most sectors of our economy are feeling repercussions from Asia's economic slowdown and a strong U.S. dollar which makes our prices less competitive in world markets.

Does this mean we give up? Of course not. But it does mean we change our game a bit.

Perhaps the most prominent adjustment in our strategy has been our aggressive use of the GSM-102 export credit guarantee program. So far this year, we've made $5.9 billion in guarantees available worldwide. This time last year, it was $3 billion. We are at nearly twice last year's level.

The GSM-102 program has been a two-way economic lifeline between the U.S. and Asia -- helping maintain our exports while enabling folks in the region to buy U.S. food and fiber. Since the currency crisis began, we've made $2.5 billion in guarantees available to Asia. Without question, if we had not been so aggressive in our use of these guarantees, U.S. farm exports would be in even more dire straits today. Korea is a particular success story. Before that country caught the Asian contagion,' they were U.S. agriculture's 4th largest export market. Today, while the dollar amount of our sales to Korea have gone down because Korea is buying far less from the world right now, our market share in Korea has increased thanks to GSM.

We have also stepped up our use of the Dairy Export Incentive Program. In fact, we will soon reach the 118,000-ton cap on our exports agreed to in the World Trade Organization. That is well ahead of schedule. Fortunately, we have nearly 30,000 additional tons that -- while reported to the WTO as exported, in fact have not been. We now will go ahead and use that additional tonnage to boost dairy exports by at least another $50 million. Most of the exports will be to Mexico and the Caribbean.

USDA and the Agency for International Development also have already allocated the entire $1.1 billion FY1998 budget for the PL480 Food for Peace program. Last year, I proposed using leftover Export Enhancement Program funds to replenish the Food Security Commodity Reserve. At that time, my plan was met with little enthusiasm in this body. But in light of what our wheat folks are going through now, not to mention the demand for this assistance, I think it would be wise to revisit this proposal. Last year, that plan would have allowed USDA to purchase at least one million metric tons of grain. Getting that much grain off the market would go a long way toward moving prices back in the right direction.

As you are aware, this Administration has not supported the use of EEP in cases where the economics clearly shows that EEP would actually result in lower prices, and the mere transfer of U.S. tax dollars to foreign buyers.

That said, EEP is a critical tool in our trade arsenal, and one we should consider using in more creative ways. Working through the appropriate interagency process, I intend to begin using EEP to indemnify U.S. exporters for lost sales due to specific injurious trade barriers. In fact, I'd like to

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begin today. Given the continued hardship our poultry industry faces due to the lack of a veterinary equivalency agreement with the European Union, I will reactivate EEP for the sale of broilers to the Middle East. Our poultry producers have lost a $30 million market in Europe. We are determined to help them make up the difference elsewhere in the world.

Poultry isn't our only problem with the EU. There are others, including the recent sale of subsidized barley to the U.S. and France's decision not to approve our GMO corn. These are serious matters, and we are actively examining our options for responding to them. We intend to send a clear message: erect unfair trade barriers, expect consequences.

Working through the interagency process, I intend to continue raising various commodity issues where our producers are vulnerable, such as wheat flour. I have nothing to announce today on that front, except that the issue remains under active discussion within the Administration.

USDA also now is developing what we call EEPRO.' That's short for EEP as a Risk Offset. The idea is to use some EEP money not as a straight subsidy in which the U.S. essentially buys down our export price, but as financial reassurance to exporters who move into markets that now are considered untouchable because they pose too great a risk of rejection due to strict or unpredictable import requirements. For example, once we resolve the TCK issue with China, some exporters may still be nervous about shipping their cargo halfway around the world, only to have it stuck in port for weeks or turned away. With EEPRO, our exporters could go ahead and ship, work in good-faith to comply with a country's standards, but have the reassurance that EEPRO will compensate them should they lose that sale. This, of course, would require a regulatory change, so there would be public comment and consultations with this committee before this proposal moves beyond the idea phase.

We also should take firm steps to protect any unused EEP funds that may be around at the end of the year. I know how frustrating it is for our producers to see that money get spent elsewhere. Especially given the current economic environment, we should make sure these funds are spent assisting the folks they are there to help -- our wheat growers and others who are pinched by disruptions in trade. I think the best way we can ensure that is through legislation that says at the end of the fiscal year, this money goes to food aid purchases. I proposed that legislation last year, and I think it's time has come.

We are also reviewing our GSM-102 and GSM-5 credit authorities to see what flexibility we may have in terms of matching competitors national account' credit windows which allow them to surpass high, but temporary credit risk hurdles that restrict normal trade.

And, I should add that I will be joining Ambassador Barshefsky in Geneva later this month for the WTO ministerial. She will be reviewing our priorities in her remarks. So I will just say that I felt it was important that I be there and make it crystal clear to the world that agriculture is a high U.S. priority in the next round.

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Mr. Chairman, there is an important lesson in the current difficulties we face: Trade can take farm incomes and U.S. agriculture to tremendous new heights. But, it is not invulnerable. Much like a bad storm, bad markets happen, and they hurt. Without question, there remains a world of opportunity out there for U.S. agriculture. But we must not forsake our own responsibility. Rain or shine, bear or bull, we need to look out for our farmers and ranchers.

Yes, we have a new Farm Bill, and a new direction for U.S. farm policy, but it does not excuse government from the most important role we have in agriculture -- ensuring a sturdy farm safety net.

USDA has taken a number of steps in this direction -- shoring up crop insurance, and making sure it works in places like the Northern Plains that have been hit year after year after year by catastrophic weather. Yesterday, I announced new crop insurance and revenue insurance pilot programs which will help a wide variety of folks from wheat growers to Native American ranchers to avocado growers. We need to look out for the folks we traditionally have helped. But we should also take a serious look at making insurance protection available in new markets.

I want to commend the many members of this committee who have actively pushed for prompt final passage of the agriculture research bill which includes provisions to ensure that our farmers have a crop insurance program they can count on in the years ahead. I also appreciate the strong support of those who have stood up for the Market Access Program. It is hard for me to comprehend why -- at a time when exports are sagging -- we are fighting for the very existence of a program that has opened door after door after door to U.S. agriculture around the world.

We also need to make sure we are giving farmers maximum financial flexibility. I have asked for the authority -- in difficult market times -- to provide producers advances on their AMTA payments. And, just yesterday I sent a letter to the chairmen and ranking members of both agriculture committees, urging quick action on legislation that would allow me to extend commodity loans for six months, so farmers have some breathing room should market prices continue to decline.

Already this year, farmers have forfeited over a million bushels of wheat. This legislation cannot wait. We have a lot of grain still in storage from the 97 crop; we have what's shaping up to be a strong 98 crop -- here and in many parts of the world. We should not be forcing farmers to market under these conditions. They need this flexibility.

We talked last week about the potential for more gridlock on the Union Pacific-Southern Pacific's rail lines. That, too, is a powerful argument for these loan extensions. Higher shipping costs mean lower prices for farmers. Farmers who sell in that environment, quite often are the farmers who can least afford to. A six-month extension on their commodity loan would give them the freedom to sell when the time is right for them.

Mr. Chairman, all of the proposals I have mentioned today are part of USDA's Commodity Action Plan. My staff has copies here today, and will make them available to this committee. I thank you for the opportunity to join you today. And, I look forward to working closely with this committee to expand American agriculture's opportunities around the world and provide the most essential ingredient of a strong trade policy -- and that is a sturdy farm safety net here at home. Thank you, and I'd be glad to take your questions.

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