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NAFTA Agricultural Trade an Unqualified Success, U.S. Official Says
Agreement serves as building block for all trade liberalization

The North American Free Trade Agreement (NAFTA) has been an "unqualified success" in facilitating agricultural trade among the United States, Canada and Mexico, and serves as a model for future efforts, according to A. Ellen Terpstra, administrator of the Foreign Agricultural Service at the U.S. Department of Agriculture.

"The United States, Mexico, and Canada enjoy a thriving agricultural trade relationship derived from the historic decision to open our borders and break down barriers to trade," Terpstra said in April 20 testimony before the Senate Foreign Relations Committee.

More specifically, she indicated that farmers in the three NAFTA nations have benefited from the reduction of arbitrary and discriminatory trade rules, while consumers have enjoyed lower prices and more choices.

Terpstra outlined the significant growth in agricultural trade among NAFTA partners since the agreement entered into force. She said that in addition to facilitating trade, NAFTA also has spurred cross-border investment.

"NAFTA fosters an environment of confidence and stability required to make long-term investments and partnering commitments," Terpstra said. "With a strong, certain, and transparent framework for investment, North America has attracted foreign direct investment in the food processing industry in all three NAFTA countries."

Increased trade and investment has, in turn, fostered North American economic integration, she added.

"NAFTA has led to a more unified system of commercial law, the establishment of common antitrust and regulatory procedures, harmonization of product standards, and increased coordination of domestic farm, market, and macroeconomic policies which has deepened market integration and enhanced market efficiency and growth within North America," she said. "In short, larger and freer agricultural markets in North America have meant more choices for consumers."

Terpstra acknowledged that implementation of NAFTA agricultural provisions have not always gone smoothly and that disputes continue to affect trade in some commodities. Nonetheless, she concluded, "there is no doubt that NAFTA has had a significant positive impact on the NAFTA partners."

Of course, "in any trading relationship of such magnitude, problems are bound to occur," she conceded. She explained that all three NAFTA signatory countries are actively working to resolve outstanding trade disputes.

As part of this process, Terpstra noted that the United States and its NAFTA partners have signed memoranda of understanding (MOUs) to create Consultative Committees on Agriculture "to address the full range of current and future trade-related concerns."

Finally, she said that despite NAFTA's unqualified success in facilitating agricultural trade, the agreement is more significant as a model and foundation for U.S. efforts to achieve trade liberalization.

"In this hemisphere we are using NAFTA as a building block to move toward the free flow of agricultural products between more and more countries," she told legislators.

Following is the text of Terpstra's testimony, as prepared for delivery:

(begin text)

Statement of A. Ellen Terpstra,
Administrator, Foreign Agricultural Service,
U.S. Department of Agriculture

Before the Senate Foreign Relations Committee,
Subcommittee on International Economic Policy, Export and Trade Promotion
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Mr. Chairman, members of the Subcommittee, I am pleased to appear before you today to discuss agricultural trade under the North American Free Trade Agreement (NAFTA). This year as we celebrate that agreement's 10th anniversary, I welcome the opportunity to review the results of NAFTA and to discuss some important trade issues that currently occupy our attention.

Let me begin my remarks with an unambiguous statement -- in the agricultural sector of our economy, NAFTA is an unqualified success. The United States, Mexico, and Canada enjoy a thriving agricultural trade relationship derived from the historic decision to open our borders and break down barriers to trade. In NAFTA's 10th year, markets continue to open and support a freer flow of agricultural products. Farmers in the three NAFTA countries benefit from the reduction of arbitrary and discriminatory trade rules, while consumers enjoy lower prices and more choices.

Benefits of NAFTA

U.S. farmers and ranchers have been major beneficiaries of NAFTA's success, as exports of food and agricultural products from the United States to our NAFTA partners reached a record $17.2 billion in 2003. These exports support approximately 258,000 U.S. jobs (every $1 billion in exports creates 15,000 jobs). NAFTA markets continue to be a bright spot for U.S. agriculture, as agricultural trade with our NAFTA partners has increased in size and importance.

When you compare the performance of U.S. agricultural exports to our NAFTA partners with our export performance to the rest of the world, the difference is even more startling. In the 10 years since NAFTA was implemented, global U.S. agricultural exports increased by an average of only $250 million a year, as a strong dollar, numerous currency crises, and a global economic slowdown combined to slow the overall growth in U.S. exports. However, during this same 10-year period, our exports to NAFTA grew by more than $800 million a year. Exports to Mexico grew by an average of $420 million a year, while exports to Canada increased by $400 million a year, making them our two fastest-growing markets by a wide margin.

What makes our export performance to Canada and Mexico even more exceptional is that it occurred during a period when the value of the U.S. dollar was particularly strong against most other currencies, including Canada's and Mexico's. A strong dollar hurt our exports in most of the world's major markets. However, in Canada and Mexico, the export losses associated with a strong dollar were more than offset by the export gains generated from significant improvements in market access provided under NAFTA.

A wide variety of U.S. products benefited from that access -- including processed grains, grocery products, corn, essential oils, poultry meat, soybeans, feed ingredients, beef and beef offal, cotton, wheat, sorghum, and pork.

Even in the area of horticultural products, where competition is intense, U.S. producers have benefited from NAFTA. In 1993, U.S. horticultural exports to Canada and Mexico totaled $2.8 billion. By 1997, after 4 years of NAFTA, our sales had jumped by more than 20 percent to $3.5 billion. In 2003, horticultural exports to Canada and Mexico continued their strong performance, reaching $5 billion, up approximately 8.5 percent from 2002. Fresh and processed fruits and vegetables, tree nuts and wines have all benefited from NAFTA's accomplishments, such as lower tariffs, the elimination of import licenses and a more transparent business environment.

Trade is a two-way street, and U.S. agricultural imports from Canada and Mexico also increased since NAFTA was implemented. Imports from Canada increased by an average of $590 million a year, while increases from Mexico averaged $300 million a year. However, that growth had more to do with the strength of the U.S. economy and the dollar than it did with the trade provisions of NAFTA, since our market was already significantly open when the agreement went into effect. In fact, over the past 10 years, our imports from the rest of the world expanded as well -- by an average of almost $900 million a year -- with almost all major foreign suppliers significantly increasing their sales to the United States.

In addition to lowering trade barriers, NAFTA has led to a growth in cross-border investment and economic integration on the North American continent. NAFTA fosters an environment of confidence and stability required to make long-term investments and partnering commitments. With a strong, certain, and transparent framework for investment, North America has attracted foreign direct investment in the food processing industry in all three NAFTA countries.

U.S. direct investment in Mexico has been concentrated in highly processed products such as pasta, confectionery items, and canned and frozen meats. In Canada, U.S. direct investment has been geared toward the handling and processing of grains. Mexican companies have invested in U.S. firms engaged in bread baking, tortilla making, corn milling, and the manufacture of Mexican-style food products, while Canadian direct investment has been geared to more general food processing.

The increased trade and investment that has resulted from NAFTA has spurred the economic integration of the continent. NAFTA has led to a more unified system of commercial law, the establishment of common antitrust and regulatory procedures, harmonization of product standards, and increased coordination of domestic farm, market, and macroeconomic policies, which has deepened market integration and enhanced market efficiency and growth within North America. In short, larger and freer agricultural markets in North America have meant more choices for consumers.

Canada

Canada is a good example of a mature market where U.S. exports have demonstrated impressive growth, in large part due to NAFTA. Canada is our largest agricultural market. Under NAFTA, U.S. exports to Canada have increased by 75 percent, reaching $9.3 billion in 2003. For Americans, this has meant almost 140,000 jobs.

Products setting export records include vegetables, meats, soybean meal, bulk commodities, snack foods, vegetable oils, fresh fruits, and pet foods.

Over 70 percent of our agricultural exports to Canada are in the consumer-oriented high-value category. Of course, this means increased jobs in the United States as our food processing industry adds capacity for this growing market. In 2003, fresh fruits and vegetables led U.S. agricultural exports to Canada, stemming from increased demand in the food service sector. U.S. fresh vegetable sales to Canada have posted an annual growth rate of 4.2 percent since NAFTA implementation.

Today, Canada is the second-largest export market for U.S. poultry, with a 77 percent gain over the pre-NAFTA level. U.S. exports of dairy products to Canada have more than tripled. U.S. corn is used in Canada to feed livestock, to process ethanol, and to produce sweeteners. And U.S. pet-food sales to Canada have surged by 40 percent under NAFTA.

NAFTA has benefited Canada, as well. According to Canada's Department of Foreign Affairs and International Trade, NAFTA has brought economic growth and rising living standards to its citizens. In 2003, Canada's agricultural exports to the United States reached a record $10.3 billion. Leading agricultural exports from Canada include snack foods, red meats, live animals, and fresh and processed vegetables.

It is important to note that these Canadian imports also create jobs in the United States in the trade and transportation, services, food processing and other manufacturing sectors, while at the same time giving U.S. consumers more variety in their buying options.

Mexico

Mexico is the world's seventh-largest consumer of food by value, with recent expenditures estimated at $93 billion -- double the level of 1995. This exceptional growth in overall food demand helps explain why Mexico has been one of the world's fastest-growing agricultural import markets since 1995. The good news for U.S. agriculture is that our exporters supply 75 cents of every dollar of this import growth. U.S. agricultural exports to Mexico have doubled under NAFTA, reaching $7.9 billion in 2003, supporting approximately 118,500 U.S. jobs and making Mexico our third-largest agricultural export market and poised to overtake our number-two market, Japan.

In 2003, the United States sent Mexico record amounts of processed fruits and vegetables, red meats, wheat, rice and soybeans. U.S. exports to Mexico are more diversified than those to Canada, with 38 percent being bulk commodities; 40 percent, consumer-oriented products; and 22 percent, intermediate semi-processed products. Mexico is one of our largest export markets for each category.

Corn, soybean, and wheat producers have increased sales in Mexico. Growth in cotton sales to Mexico has also been very impressive, due to the country's rising consumer and export demand for its textiles and apparel. However, the biggest surprise has been the strong growth of many of our consumer-oriented products to Mexico.

Before NAFTA, U.S. exports of these products were severely limited by trade barriers and weak demand. Today, with lower market-access barriers and the more vibrant Mexican economy that have resulted from NAFTA, Mexico ranks as one of our top export markets for a wide range of high-value foods, including meats, fresh and processed horticultural products, pet foods, and grocery products.

As with Canada, our agricultural trade with Mexico continues to have a direct impact on the prosperity of our agricultural industry. For example, in Nebraska, the "Cornhusker State," and other large feed-producing states, feed corn producers have benefited greatly under NAFTA provisions. The volume of U.S. corn exports to Mexico has risen over 42 percent since 1994, reaching 5.5 million metric tons -- valued at $653 million -- in 2003.

Maryland is another example of a state whose producers have benefited from NAFTA. One-fourth of Maryland's farm receipts come from broiler production. The amount of U.S. poultry going to Mexico and Canada under NAFTA has almost doubled.

Mexico's agricultural exports have also benefited from NAFTA. While Mexico has run a consistent annual deficit of around $1.5 billion with the United States, its agricultural exports into the U.S. market have nearly doubled since NAFTA's inception, reaching a record $6.3 billion in 2003. As with Canada, this trade creates U.S. jobs in the food-support, distribution, and processing industries, and offers consumers more purchasing choices.

Trade Issues

While implementation has not always proceeded smoothly, and disputes continue to affect trade in some commodities, there is no doubt that NAFTA has had a significant positive impact on the NAFTA partners. Equally important, the agreement established procedures for handling disputes. By "locking in" key trade and investment reforms, the agricultural sectors and governments of NAFTA partners have been able to devote greater attention to resolving conflicts related to other issues, such as sanitary and phytosanitary (SPS) measures. In order to facilitate the resolution of such issues, the United States remains committed to using the tools available under both NAFTA and the WTO, but also has developed bilateral mechanisms.

In any trading relationship of such magnitude, problems are bound to occur. For example, since 1999, Mexico has increased its use of SPS import regulations, which has led to disruptions in some of our agricultural exports. It has also used anti-dumping cases to increase duties and slow or block trade. Furthermore, a lack of consistency in applying import requirements has caused problems at points of entry. Issues still unresolved include a range of phytosanitary disputes, BSE and North American harmonization, and avian influenza.

Likewise, trade disputes have arisen between the United States and Canada over such issues as wheat, softwood lumber, and dairy export subsidies. With market-access issues largely addressed through NAFTA, the need to take matters to the WTO has been limited to just a few key problems.

For both Mexico and Canada, we are actively working on the trade disputes, whether they are related to SPS measures or trade remedies. The United States and our NAFTA partners have signed bilateral Memorandums of Understanding (MOUs) to create Consultative Committees on Agriculture (CCAs) to address the full range of current and future trade-related concerns. These CCAs are often complemented by high-level bilateral and sometimes trilateral discussions on important matters. Recent successful cooperation efforts include the significant restoration of the trade in beef with both Canada and Mexico.

Looking Ahead

When talking about NAFTA and agriculture, it is important to note that the agreement has more significance than any of the statistics I have given you today. NAFTA serves as a model and as a foundation for all our efforts to achieve trade liberalization. In this hemisphere, we are using NAFTA as a building block to move toward the free flow of agricultural products between more and more countries. The recently concluded negotiations between the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua will strip away barriers to trade, eliminate tariffs, open markets, and promote investment, economic growth, and opportunity for seven countries.

Also within our hemisphere, the United States is negotiating free-trade agreements with Panama and the Andean countries of Peru, Colombia, Ecuador, and Bolivia. Further, the Free Trade Area of the Americas (FTAA) talks, launched in 1998, offer an important opportunity to create the economic growth necessary to alleviate poverty and raise living standards throughout the Americas. The FTAA will be the largest trade zone in the world, with a combined gross domestic product of over $13 trillion.

To thrive and prosper in the 21st century, U.S. agriculture must continue to look beyond the relatively mature domestic market to the expanding global marketplace.

The United States is now the world's largest agricultural exporter by value, with U.S. agricultural exports equaling 28 percent of farm cash receipts. One out of three acres are planted for export.

American farmers export 49 percent of their wheat, 37 percent of their soybeans, 65 percent of their almonds, and 47 percent of their rice. High-value products generate even more additional economic activity -- $370 million for every $1 billion exported.

Trade liberalization is critical to the economic future of our agricultural industry. Access to growing markets is essential to the profitability of the U.S. farm sector.

In the next 20 years, the world will gain another 1.4 billion people -- a 25 percent increase in global population. The demand for agricultural goods will soar. The U.S. is well equipped to meet this demand -- our productivity increases far exceed our population growth.

USDA economists project U.S. agricultural exports in fiscal 2004 will reach $59 billion. These exports will create an additional $84 billion in support services to harvest, process, package, store, transport, and market products. Farm exports support 885,000 jobs, and about one-third of these are in rural communities. Many jobs are on the farm, but most are in trade and transportation, services, food processing, and other manufacturing sectors.

Mr. Chairman, the administration is committed to American agriculture's success in world markets. NAFTA is contributing to this success. It is on track. We will continue working closely with the Congress in addressing the trade policy issues that remain unresolved and any that emerge. We look forward to close collaboration and a strong partnership in building on the successes already achieved through NAFTA and other market-opening agreements in expanding global trade opportunities and ensuring a level playing field for U.S. agriculture.

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