U.S. GRAINS
COUNCIL

STATEMENT

OF THE U.S. GRAINS COUNCIL

TO THE U.S. INTERNATIONAL TRADE COMMISSION

REGARDING THE ECONOMIC IMPACT OF TRADE AGREEMENTS IMPLEMENTED UNDER TRADE PROMOTION AUTHOITIES, 2016 REPORT

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Madame Chairwoman, Mr. Vice Chairman and fellow Commissioners, my name is Tom Sleight, and I am president and CEO of the U.S. Grains Council. The Council is a private, non-profit organization representing U.S. producers of corn, sorghum, barley and co-products such as ethanol, distiller's dried grains with solubles (DDGS), and corn gluten feed and meal, and as well as associated agribusinesses. Founded in 1960, the Council now has 10 international offices, representatives in an additional 15 locations and a network of consultants and partnerships that support programs in more than 50 countries. Our members, leadership and staff fundamentally believe exports are vital to global economic development and to U.S. agriculture's profitability.

On behalf of the Council, I appreciate the opportunity to appear before the U.S. International Trade Commission and provide our perspective on the economic impact on the United States of the trade agreements that have been implemented since 1984.

IMPORTANCE OF INTERNATIONAL TRADE TO U.S. AGRICULTURE

U.S. agriculture is uniquely positioned to benefit from international trade. We are blessed with good soils and climates; public and private research has played a critical role in increasing agricultural productivity; and farmers are continually adopting new technology and innovative practices to both preserve our soils and remain competitive in international markets. The United States has also developed a value chain and transportation infrastructure that enable agricultural commodities to be shipped efficiently to international markets. In short, we can provide our overseas customers the product they want, when they want it.

International trade is also critical to U.S. agriculture, including our members who grow, process and export corn, sorghum, barley and associated co-products. The United States offers the highest quality and most consistent market for corn, sorghum, barley and distiller's dried grains with solubles (DDGS) in the world. American ethanol is also now providing green, sustainably-produced fuel to help power cars globally. Yet American agriculture offers its international customers much more. In part though consistent outreach from our organization, global buyers enjoy access to world-class agricultural research, the latest in production technology, trade policy expertise and timely insight into future supply opportunities.

Nationwide, U.S. food and agricultural exports reached a record of more than $150 billion in 2014, according to the U.S. Department of Agriculture's Foreign Agricultural Service (USDA's FAS), supporting more than 1 million American jobs and accounting for more than 30 percent of gross farm income. Of that total, U.S. coarse grains (corn, barley, sorghum, oats, rye) totaled more than $12.5 billion. The United States also saw an agriculture trade surplus of some $43 billion, keeping our sector a U.S. foreign trade champion and supporting our belief that expanding trade can be a long-term driver of ag sector growth. (See slides below, provided by USDA FAS.)

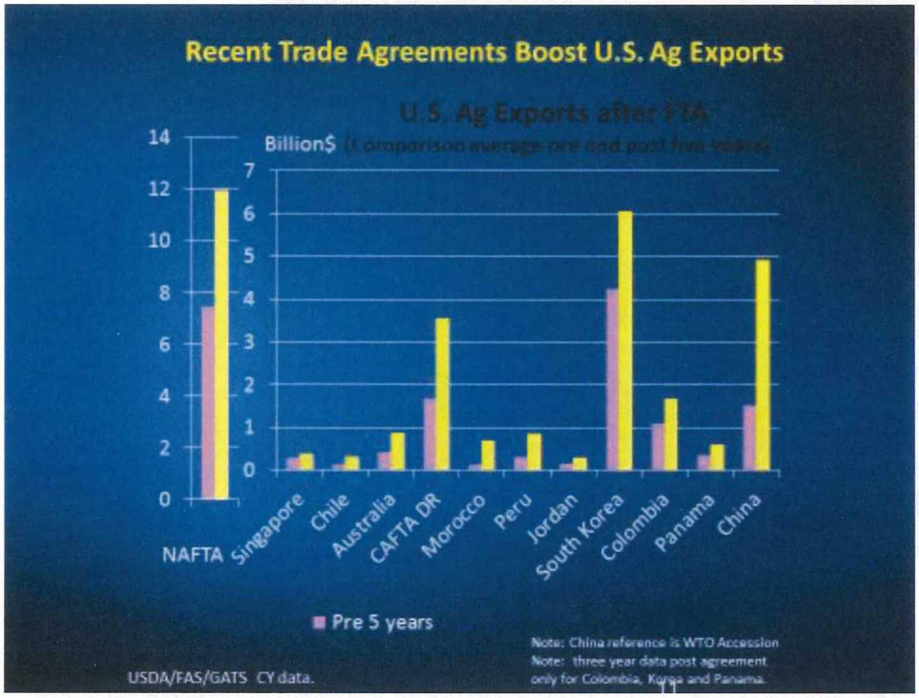
Equally important, U.S. grain and related products help provide high-quality food to people around the world and stimulate economic growth among our trading partners. An essential part of the Council's work is helping our trading partners realize they can utilize reliable U.S. grain supplies to advance food security through trade while focusing their resources elsewhere within their growing economies.

THE ROLE OF TRADE AGREEMENTS IN THE GROWTH OF FOREIGN MARKETS

Enlightened trade policies are the foundation of effective trade relationships, and where such policies are already in place, everyone wins. Specifically, access to foreign markets coupled with growing global consumer demand is vital to the ongoing success of the U.S. agriculture sector. However, U.S. agricultural exports are hindered by numerous policies that can restrict trade, including tariffs, non-tariff barriers and other regulatory practices and administrative procedures. Trade agreements are the most effective paths for reducing or eliminating these barriers and opening foreign markets to competition. In particular, trade negotiations are the only way to ensure countries will reduce tariffs and other barriers for the long-term.

The United States has negotiated trade agreements with 20 countries since the end of World War II, including that which established the World Trade Organization. Those agreements have helped open U.S. markets and have contributed to the strong growth in agricultural exports during the last 30 years. **Importantly, in calendar year 2014, U.S. agricultural exports to these countries account for 41 percent of total U.S. agricultural exports, according to USDA data.** Adding in the Trans-Pacific Partnership (TPP) countries with which the United States does not already have trade agreement, that figure climbs to 52 percent. For coarse grains and co-products, like DDGS and corn gluten feed and meal, the importance of trade agreements is even more striking. Without factoring in TPP, **in calendar year 2014, U.S. exports of coarse grains and co-products to current FTA partners accounted for 42 percent of worldwide exports, according to USDA data.** Add in the TPP countries with which we do not already have trade agreements, and that figure climbs to more than 60 percent.

In addition, a comparison of sales before and after recent trade agreements were put in place (see slide provided by USDA FAS) demonstrates that U.S. agricultural exports have increased, in some cases dramatically, after agreements have gone into effect.



While we have been reaping the benefits of trade agreements, U.S. agriculture also risks being left behind as other countries agree to preferential agreements that lower tariffs between themselves but leave barriers in place for U.S. exports. In 1994, when the North American Free Trade Agreement (NAFTA) entered into force, there were approximately 40 preferential trade agreements with the U.S. party to only one - an FTA with Israel from 1985. Today, there are more than 260 trade agreements, 20 of which the United States has signed onto. Pursuing the benefits offered by increased trade has been the key factor in motivating countries to negotiate these agreements. Compare this with the European Union- itself a 28-country customs union - which has preferential trade agreements with 45 countries and is negotiating preferential agreements with another 87 countries.

Obviously, if the United States is going to be able to sell its products to the 95 percent of the world's customers outside its borders and the 80 percent of global purchasing power they represent, we will need to continue to aggressively pursue trade negotiations such as TPP, the Transatlantic Trade and Investment Partnership (T-TIP) and multilateral negotiations through the WTO.

IMPORTANCE OF TRADE TO U.S. COARSE GRAINS

U.S. "feed grains in all forms" is a measurement including U.S. corn, sorghum, barley, distiller's dried grains with solubles (DDGS), corn gluten feed (CGF), corn gluten meal (CGM), ethanol as measured in corn equivalents, meat and poultry as measured in corn equivalents, and processed feed grain products.

By accounting for all feed grains that are exported by the United States – in either unprocessed or value-added form – the measure is intended to offer a holistic look at demand from global customers being met by U.S. farmers. It also offers a more expansive view of the amount of U.S. feed grain production being exported.

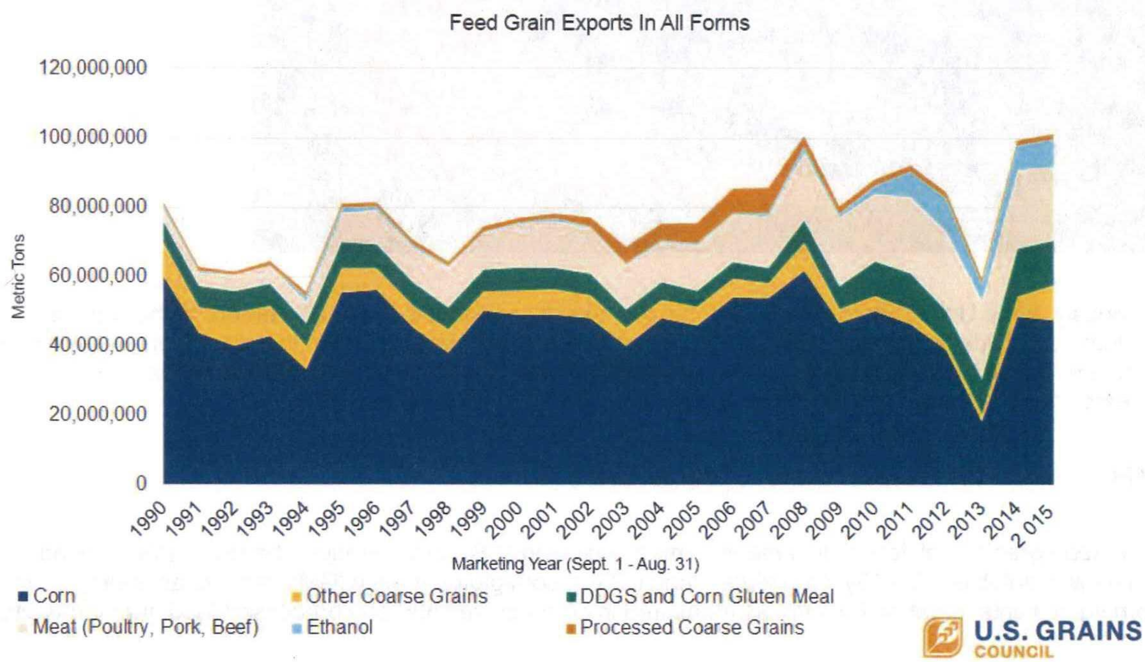
The Council estimates 100.1 million metric tons of U.S. feed grains in all forms were exported in the 2014/2015 marketing year, up 800,000 tons from the previous year and the second highest export total on record.

This means that in the marketing year that just ended, unprocessed feed grain exports accounted for less than 15 percent of all U.S. production. However, unprocessed grains plus the grain equivalents for value-added products accounted for 26 percent of U.S. production.

The total percentage of feed grains in all forms exported is expected to increase in future years. Using 10-year projections on corn, sorghum, barley, ethanol, meat and poultry, and co-products like DDGS from the USDA and Pro Exporter, the Council estimates that the **grain equivalent of these exports will rise to 131 million tons by 2024/2025, accounting for roughly 33 percent of U.S. feed grain production.**

Factors influencing this estimate include projected increases in foreign demand for U.S. corn as an animal feed; rising demand for U.S. ethanol to meet other countries' industrial uses and fuel blending requirements; and rising U.S. meat and poultry exports to developing countries due to the rapid expansion of their middle classes.

Gaining access to new and existing export markets is critical to achieve increased sales of both unprocessed and value-added feed grains products. To this end, the U.S. grain industry is highly supportive of broad-based trade agreements such as those in place with Central American countries (CAFTA), Peru and Colombia and, in principle, new agreements like the 12-nation TPP and T-TIP with the European Union.



IMPACT OF EXISTING FREE TRADE AGREEMENTS

The following is an overview of the impacts and benefits from existing major U.S. free trade agreements for U.S. coarse grains and their co-products:

North American Free Trade Agreement (NAFTA)

More than two decades have passed since the implementation of NAFTA in 1994. NAFTA has had a profound effect on many aspects of North American agriculture. With a few exceptions, intraregional agricultural trade is now completely free of tariff and quota restrictions, and the agricultural sectors of NAFTA's member countries - Canada, Mexico and the United States - have become far more integrated, as is evidenced by rising trade in a wider range of agricultural products and substantial levels of cross-border investment in the processed food sector.

Perhaps the most obvious indicator of this increased integration is two decades of almost uninterrupted growth in intraregional agricultural trade. Between 1993 and 2013, the total value of this regional trade expanded from $16.7 billion to $82.0 billion, an increase of 233 percent when inflation is taken into account, according to USDA's Economic Research Service (ERS).

Creation of a far more integrated North American market in grains, oilseeds and related products is one of NAFTA's major achievements. Prior to NAFTA, Mexico maintained strict control of corn, wheat and barley imports via licensing requirements and provided guaranteed prices to domestic producers of many field crops. Following NAFTA's implementation, Mexico transitioned to a system featuring duty-free trade with the United States and Canada and a mix of domestic agricultural supports similar to those in the United States. For the United States and Canada, trade liberalization of grains and oilseeds under NAFTA primarily involved the removal of minor tariffs on bilateral trade.

Rising demand for feed and food has created new opportunities for intraregional trade in grains and oilseeds. Poultry and hog producers in Mexico, for instance, rely heavily on imported feedstuffs as they seek to meet their country's growing demand for meat.

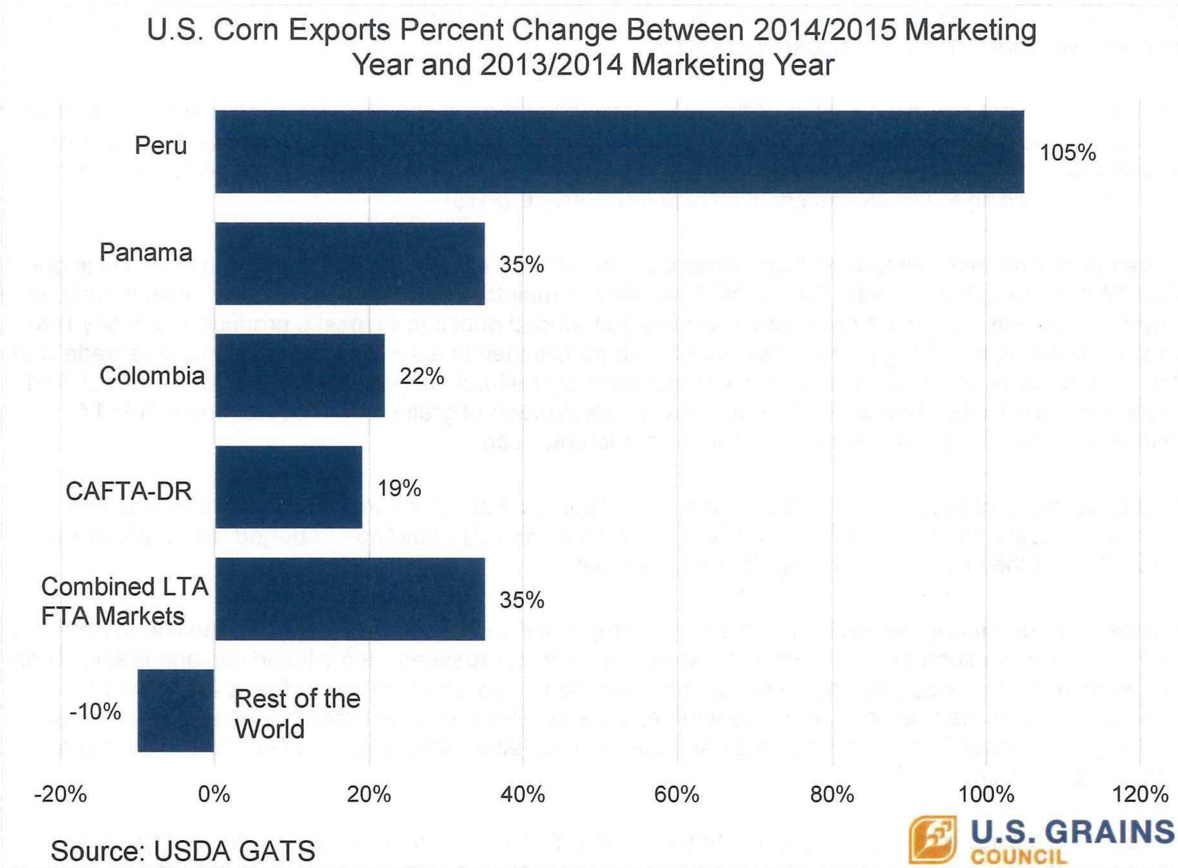
Feedstuff trade among the NAFTA countries encompasses a diversity of products in addition to traditional bulk commodities such as corn, sorghum, wheat, soybeans, rapeseed, and oilseed oils and meals. There is a substantial two-way trade between Canada and the United States in mixed feeds and mixed feed ingredients other than pet food. U.S. feedstuff exports to Mexico include preparations used for animal feeding and brewers' and distillers' dregs and waste. This latter category includes distiller's dried grains with solubles (DDGS).

As a result, Mexico and Canada are key markets for U.S. coarse grains and co-products. **The most recent numbers available from USDA now show that Mexico is the second largest market for corn and DDGS and the top market for U.S. barley. These numbers show Canada is the third largest market for U.S. barley; the sixth largest for DDGS; and the seventh largest for U.S. corn.**

CAFTA-DR and Colombia, Panama and Peru FTAs

Trade in U.S. grains with Columbia has rebounded following enactment of the U.S.-Colombia free trade agreement (FTA) in 2012 and market promotions conducted by the Council. The corn import quota under the Colombia FTA filled rapidly this year, and imports reached a level not seen since 2008. As a result, exports to Colombia, the third largest market for U.S. corn during the 2014/2015 marketing year, are up 22 percent in tonnage. That was equally beneficial to both U.S. corn producers and Colombian end-users who were able to take advantage of competitively priced, high-quality U.S. grain.

The importance of trade liberalization has also been evident this year in U.S. corn exports to three other Latin American markets with which the United States has recently implemented free trade agreements, with corn exports there vastly outperforming the rest of the world. **Exports to the CAFTA-DR countries, including five Central American countries and Dominican Republic, combined make up the equivalent of the fifth largest for U.S. corn, with sales up 19 percent from a year ago. Most recent numbers show Peru, the numerical fifth largest market for U.S. corn, is up 105 percent, and Panama, the 16th largest market for U.S. corn, up 35 percent.** By comparison, U.S. corn exports to the world as a whole are down this year.



Korea FTA

At its entry in force, South Korea was already the fifth largest market for U.S. farm exports and, with the agreement, almost two-thirds of U.S. farm product exports became duty free immediately. While the United States already enjoyed zero tariffs on corn for feed imports, the FTA locked in the tariff at zero and achieved expanded access for U.S. barley products and corn starch. DDGS also received duty-free status under the FTA.

Sales of U.S. barley and malting barley jumped significantly in 2012 following implementation of the FTA. **In 2014/2015, Korea was our fourth largest market for corn and DDGS and our sixth largest market for U.S. barley.**

Other FTAs

Because agricultural goods are so fundamental to the ongoing functioning and growth of an economy, there are often economic impacts of free trade agreements with our trading partners beyond direct sales. The U.S. grain industry has benefited from additional FTAs put into place since 1984 through systemic changes in those countries brought on by reduced trade barriers. In these countries, the removal of duties and protections on all sectors spurs not only exports from the United States directly but also investment locally and from regional partners by companies interested in taking advantage of a newly favorable trade environment.

The following are countries in which the Council operates programs or offers consulting assistance to grain buyers that have benefited economy-wide from free trade measures with the United States:

Chile - FTA went into effect in 2004: In 2004, the United States exported $3.6 billion of goods to Chile. In 2014, that number had grown to $16.4 billion, a five-fold increase. Related to grains, in 2004/2005, corn imports to Chile totaled 18,955 metric tons valued at $2 million, while in 2014/2015, they were 73,899 metric tons worth $12 million.

Jordan - FTA went into effect in 2001: In 2001, the United States' exports to Jordan were worth $339 million compared to $2 billion in 2014, a five-fold increase. In 2001/2002, corn imports to Jordan were 15,631.2 metric tons valued at $1.45 million, while in 2014/2015, they were 80,512.7 metric tons valued at $13.8 million.

Morocco - FTA went into effect in 1996: In 1996, the U.S. exported $476 million of goods in total to Morocco compared to $2.1 billion in 2014, a four-fold increase. In 1996/1997, corn imports to Morocco were 302,352.4 metric tons valued at $46 million, while in 2014/2015 they were 297,920 metric tons valued at $52 million.

Oman - FTA went into effect in 2009: In 2009, the United States exported $1.1 billion of goods to Oman, compared to $2 billion in 2014, a two-fold increase. In 2009/2010, corn imports to Oman were 2,000 metric tons valued at $656,001, while in 2014/2015, they were 32,999 metric tons valued at $6 million.

Singapore - FTA went into effect in 2004: In 2004, the United States exported $19.3 billion of goods to Singapore compared to $30 billion in 2014, a 50 percent increase. In 2004/2005, corn imports to Singapore were 216.7 metric tons valued at $301,882 while in 2014/2015, they were 471.1 metric tons valued at $359,819.

CONCLUSION

In conclusion, the U.S. grains sector has significantly benefited from more liberalized trade in the past 30 years, and the Council believes expanding access to export markets will continue to drive the success of American agriculture for years to come.

For example, we have recently expanded support to U.S. agriculture and rural economies by promoting exports of U.S. ethanol. In 2014, the Council partnered with the USDA's FAS, Growth Energy and the Renewable Fuels Association to assess how best to promote ethanol exports via international market development programs. Market assessment missions are laying the groundwork for exciting market development activities in the coming years.

But to take advantage of this and other emerging export opportunities – and to maintain our competitiveness in the global marketplace - trade liberalization must continue at all levels, bilateral, regional and multilateral. Trade agreements hold the key to opening markets and resolving tariff and non-tariff barriers to allow the movement of coarse grains, co-products in all forms and other agricultural exports to where they are demanded. With effective policies in place and followed, trade works – and the world wins.

Again, we thank the Commission for the opportunity to provide our views. We are happy to entertain any questions you or others might have and work with you to continue expanding access to global markets for our members.