Statement of
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Office of the U.S. Trade Representative
Before the
Committee on Finance
of the
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Mr. Chairman and Members of the Committee, thank you for the opportunity today to discuss with you the state of our agricultural trade relationship with Mexico. The strength of the Mexican market continues to be a bright spot for U.S. agriculture. As the United States' third largest export market for agricultural goods, Mexico is a critically important trading partner for U.S. farmers and ranchers. The reverse is true for Mexican farmers and ranchers as well, with the United States buying 83 percent of Mexico's agricultural exports.

Nearly 10 years ago, the North American Free Trade Agreement (NAFTA) created the largest free-trade area in the world. It is no coincidence that the longest period of economic growth in U.S. history came in the aftermath of the NAFTA and the WTO Agreements. NAFTA has delivered on opening markets, expanding trade, stimulating economic growth and investment, and boosting overall strength and competitiveness of North America's economies and producers.

U.S. farmers and ranchers have been beneficiaries of NAFTA's success. U.S. corn exports to Mexico rocketed 750% in the ten year period from 1993, the year prior to NAFTA's implementation in 1994. U.S. beef exports climbed 430 percent in that same period, with soy bean and rice exports nearly doubling, pork exports climbing 188 percent, and apple exports up 50 percent. U.S. agricultural exports to Mexico in 2002 reached a record high of $7.3 billion double our export value to Mexico the year before NAFTA's implementation. Record values of U.S. exports to Mexico in 2002 included bulk agricultural goods such as wheat and rice; intermediate agricultural goods such as soybean oil and planting seeds; and consumer-oriented agricultural products such as meat and processed fruits and vegetables. U.S. investment in Mexico's food industry rose to $5.7 billion in 2000 (latest data available) with Mexico now the second largest destination for U.S. companies investing in this sector.

Mexico has also benefited greatly from the NAFTA. Our imports of agricultural goods from Mexico also doubled since 1993, totaling a record $5.5 billion in 2002. Total Mexican agricultural production increased by 50 percent from 1993 to 2001, in large part due to the U.S. appetite for its products. Fresh vegetables account for approximately 30 percent of the value of total Mexican exports to the United States. Other significant Mexican exports to the United States include coffee, live animals, beer, and fresh and processed fruits and vegetables.

NAFTA reached an important milestone on January 1, 2003. In accordance with NAFTA, the United States and Mexico eliminated most remaining duties on agricultural imports. Mexican tariffs remain on dry beans, corn, sugar and orange juice. The United States maintains tariffs on frozen concentrate orange juice, peanuts, sugar, and some horticultural products. These tariffs are scheduled to be phased out by January 1, 2008.

In Mexico, the elimination of duties coupled with the negative perception of U.S. farm subsidies created significant pressure in 2002 on the Mexican government to take action to support and protect Mexican farmers against agricultural imports from the United States. To help offset this pressure, the United States government was proactive in a coordinated approach to dispel the negative myths of NAFTA and the Farm Bill and support the Fox Administration in its rejection of demands to re-negotiate the NAFTA. In addition, U.S. Trade Representative Robert Zoellick and Secretary Ann Veneman created a Consultative Committee on Agriculture in 2002 with their Mexican counterparts to establish a mechanism to address and resolve trade irritants, especially during Mexico's transition to duty-free trade. We continue our active engagement to resolve problems and highlight the benefits of NAFTA with the Mexican government, the

Mexican Congress, and the Mexican public, particularly as we approach the tenth anniversary of NAFTA.

In any large and growing trade relationship there will be challenges. Our trade with Mexico is no exception. In fact, the trade problems we have had in agriculture, particularly over the last two years, have been significant. This Administration has tackled these problems aggressively and is actively working to resolve them. In April 2003, as we continued to experience increasing blockages to U.S. agricultural exports, USDA officials and I went to Mexico to lay down a marker. Either the United States and Mexico started resolving our trade problems, or our trade relationship would quickly deteriorate. We have started seeing some improvements. I would like to take the opportunity to highlight our work done in close cooperation with U.S. industry in a number of key areas.

Dry Beans

Under NAFTA, Mexico maintains a tariff rate quota, administered through an auctioned permit system, on U.S. and Canadian dry beans. Upon entering office, this Administration was quick to engage the Mexican government to resolve a longstanding problem with Mexico's import permit system. We now have a predictable and transparent system for awarding the permits. However, last year Mexico completely closed the border to all imported dry beans, blatantly protecting its producers. We were quick to challenge the Mexican government, raising the problem bilaterally at all levels of government as well as in international organizations. We achieved a break-through in April when USDA officials and I went to Mexico resulting in a re-opening of the market in May.

Poultry

One reason for the spate of recent problems in U.S./Mexico agricultural trade relations is that the structure of Mexico's agriculture system has not adequately transitioned to duty-free trade. In the case of poultry, for example, our imports to Mexico faced prohibitive duties until 2002, so little adjustment in Mexico took place for the first 8 years the agreement was in place. Mexican poultry producers were late in preparing for free trade in 2003 and sought trade remedy action against U.S. exports of one product, chicken leg quarters. The Mexican poultry industry sought relief from the Mexican government and we agreed to negotiate a safeguard only for chicken leg quarters. U.S. industry fully supported this decision. In July, the U.S. and Mexican governments concluded negotiations establishing such a safeguard, one which allows for significant market access for U.S. poultry and export growth to Mexico's market. The agreement expires on December 31, 2007, and includes Mexican guarantees not to impose or maintain certain other barriers to U.S. poultry.

<u>Rice</u>

Mexico is the largest export market for U.S. rice. In 2002, Mexico imposed antidumping duties on U.S. long-grain milled and semi-milled white rice, which comprise approximately 20 percent of U.S. rice exports to Mexico. Because we believe that Mexico's antidumping order on U.S. rice is inconsistent with WTO rules, we requested consultations under the WTO. We held the consultations on July 31 and August 1. Although the consultations were informative, they did not resolve our concerns. Therefore, we have decided to request the formation of a WTO dispute settlement panel to review the Mexican antidumping order, as well as certain provisions of Mexico's antidumping law. We expect that the panel will be formed in November.

<u>Beef</u>

U.S. and Mexican beef and cattle industries are increasingly integrated, with benefits to producers, processors and consumers in both countries. Despite these mutual benefits, the Mexican beef industry requested the imposition of an antidumping order on U.S. beef, and the Mexican authorities imposed such an order in 1999. (Unlike with rice, however, U.S. beef exports have continued to increase.)

We requested and held WTO consultations on the beef order in conjunction with those on the rice order. We are evaluating the results of those consultations, and we will be deciding shortly whether to proceed to request a panel. Somewhat related to the U.S. government's case, several U.S. beef exporters challenged the beef antidumping order under Chapter 19 of the NAFTA. The Chapter 19 panel, however, has continued to delay a decision, which is now not expected until October 29.

We also understand that the Mexican beef industry has requested a global safeguard against all imports of beef. We have warned the Mexican government not to take such an action. We do not believe that Mexico could justify the imposition of such a measure under WTO rules. Further, under NAFTA, Mexico would be obliged to provide acceptable trade compensation to the United States. If trade compensation cannot be agreed upon, the United States would have the right to retaliate and suspend concessions. We will challenge Mexico if we do not believe they are acting consistent with WTO or NAFTA obligations.

<u>Pork</u>

We are also actively working to prevent potential actions that Mexico may take on exports of U.S. pork. In May, we finally succeeded in getting Mexico to rescind a dumping duty on smaller sized live swine. However, a bigger issue is the threat of antidumping duties on U.S. pork, specifically hams. We believe that Mexico's January 2003 initiation of a pork dumping investigation violated WTO rules, and we question the statistics being used by the Mexican government to determine the level of imports. We have engaged the Mexican government to obtain an extension on making a decision on the petition, to resolve differences on trade statistics and to seek alternatives to trade restrictive measures. Mexico's pork industry has very competitive players, but also a large number of small producers who may not be competitive. To enhance the competitiveness of Mexico's pork industry, however, is a long term solution, in which the

U.S. government and U.S. pork industry are willing to cooperate. We are now trying to find ways to bridge the short and long term gap to ensure trade continues to flow.

<u>Sweeteners</u>

No commodity has been as unjustly treated by Mexico as our high fructose corn syrup (HFCS) producers. First subject to a dumping order later ruled illegal by the WTO, then subject to an arbitrary quota and now effectively banned by a discriminatory tax on its biggest end use, soft drinks, HFCS is not realizing the benefits of the NAFTA. It has long been my top priority with Mexico to end this very unfortunate state of affairs.

As I noted was the case with poultry, the root cause of this situation is the fact that the transition provided by the NAFTA for sweetener trade has never properly begun. Today, it is less important to apportion blame for that fact than to try to find a way forward. Our corn growers and corn refiners, along with U.S. cane and beet sugar producers and refiners, U.S. sugar users, and the governments of Mexico and the United States recognize that our shared interests are best served by reaching agreement to permit integration of the markets to begin, and to do so in a way that is sensitive to affected industries.

The incredible patience and flexibility shown by our HFCS producers does have its limits, as, frankly, does this Administration's. I believe we have an opportunity in the coming weeks to resolve this dispute and see HFCS exports to Mexico resume. However, Mexican sugar producers and the Mexican Congress, which must rescind the beverage tax, must understand their own interests are best served through negotiations as well. We seek a fair, balanced and sustainable realization of the NAFTA's comprehensive and ambitious goal for agricultural trade, and will work hard and in good faith to reach agreement this fall.

However, our HFCS industry has been denied its rights too long. We hope the Mexican agricultural sector realizes the risks it faces if we cannot resolve the matter through negotiations.

Apples

USTR is also working to regain our export market in Mexico for U.S. apples. In 1998, U.S. apple shippers entered into a suspension agreement avoiding the potential imposition of a 101 percent dumping duty. Despite our efforts, Mexican apple growers persuaded its government to revoke the suspension agreement in 2002, and impose dumping duties of up to 49% on U.S. apples in August 2002. Our industry has been fully engaged, with our help and support, to negotiate a new suspension agreement. I am cautiously optimistic that we will succeed, and we are working vigorously to be able to increase U.S. apple exports to levels experienced prior to the antidumping order.

Conclusion

We are making progress to resolve a number of our bilateral trade problems with Mexico, but we obviously have more to do. We will continue working to ensure that the Mexican market remains open despite political pressures from Mexican farmers, and we will defend U.S. interests if Mexico violates its international trade obligations. Mexico is a valuable trading and hemispheric partner, and U.S. farmers have benefited from that partnership. Our goal is to strengthen that partnership as we move closer to tariff free trade as promised by NAFTA.