

TESTIMONY
OF
MARK BERLIND
EXECUTIVE VICE PRESIDENT
GLOBAL CORPORATE AFFAIRS
KRAFT FOODS, INC.

United States Senate
Committee on Finance
Hearing on
U.S.-Central America-Dominican Republic
Free Trade Agreement
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Mr. Chairman, Members of the Committee, I am Mark Berlind, Executive Vice President, Global Corporate Affairs, Kraft Foods, Inc. Thank you for inviting me to appear before you today to discuss the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). Trade is an issue of vital importance to Kraft, our 50,000 U.S.-based employees, our stakeholders, other U.S. food manufacturers, and thousands of American farmers who supply high quality raw materials to the U.S. food processing industry.

Kraft Foods, which recently celebrated its one hundredth anniversary, traces its origin back to the days when James L. Kraft rented a horse and wagon and started selling cheese in Chicago. The company he founded and built is now the largest branded food company in the U.S. and the second largest in the world. Last year, Kraft reported net revenues of over \$32 billion from sales in 155 countries.

The Chicago area is still our home, and America remains our biggest market. Kraft products can be found in 99% of American households. In addition to our flagship cheese brands, we take pride in producing and marketing many other iconic food and beverage brands, including *Ritz* crackers, *Post* cereals, *Maxwell House* coffee, *DiGiorno* pizza, *Oreo* cookies, *Planters* nuts, and *Oscar Mayer* meat products.

Kraft is essentially in the business of transforming raw or semi-processed farm commodities into consumer-ready products. On a global basis, Kraft buys \$7 billion worth of agricultural commodities annually. We are one of the world's largest buyers of dairy products, sugar, meats, coffee, oils, and nuts. We also purchase large quantities of wheat, rice, corn, and soy and other crops.

Last year, for use in our U.S. manufacturing facilities, we bought \$3.6 billion worth of farm commodities. This included \$1.3 billion worth of dairy products, nearly half a billion dollars worth of pork, and almost one quarter of a billion dollars worth of sugar. We believe that the growth and success of Kraft and the strength of our brands is directly linked to the emphasis we place on providing consumers with high quality, good-tasting,

convenient and fun products at the right price. This involves a constant challenge to provide better products to our customers at the best value.

The 50 U.S. states are currently Kraft's largest market. Given U.S. demographic realities, however, future growth for Kraft – as well as for the entire U.S. food and agriculture complex -- is inextricably tied to our ability to access export markets. Mr. Chairman, as you and most other farm state Members know, 95 percent of the world's consumers live outside the U.S. That is where future growth will take place.

Kraft and Entire U.S. Food Industry Would Benefit from Access to CAFTA-DR Markets

There are about 46 million consumers living in the six CAFTA-DR countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic). With moderate population growth, rising incomes, and improved diets, demand for U.S. processed foods is expanding.

For U.S. food and agricultural producers, in particular, population age and growth are among important indicators of market potential. For comparison purposes, the median age of the U.S. population is 36 years, and rising. Median ages for our six prospective CAFTA-DR partners are dramatically younger, ranging from 18.4 years in Guatemala to 25.7 years in Costa Rica. And, while the U.S. population is growing at a rate of less than one percent (.92%) annually, rates for the six countries range from 1.33 percent for the Dominican Republic to 2.61 percent for Guatemala. These numbers have striking implications for projected levels of food consumption inside the U.S. vs. within the six CAFTA-DR countries over the foreseeable future.

In general, U.S. exports of processed food products already capture roughly one quarter of total food imports into the six countries, and U.S. brands – including a number of well-known Kraft brands – are popular throughout the region. Already, exports of many processed food products are growing faster than other agricultural products. We are convinced CAFTA-DR would make Kraft products even more competitive, and more popular, in the region.

Cereals, Cookies, Soups, Pet Food Would Benefit from Immediate Tariff Relief

Food, beverages, and consumer products currently face an average *ad valorem* tariff of 15 percent in the five CAFTA countries and 20 percent in the Dominican Republic (DR). Some food products like processed cheese and cream cheese – products of special interest to Kraft – face tariffs that range up to 66 percent in some CAFTA countries. Under the Agreement, tariffs on U.S. exports of most food and beverage products would be reduced to zero over fifteen years. Certain products, such as breakfast cereals, cookies, and pet food products would receive immediate duty free treatment. This means Kraft would benefit immediately on products like our *Post* breakfast cereals, *Oreo* cookies, and *Milk Bone* pet foods.

The DR is currently the largest market of the six for Kraft products. And, that market could be much larger if it were not constrained by the most daunting tariffs we face in the region. During 2004, Kraft shipped nearly 700 tons of food products, worth \$1.7 million, to the DR. This included 192 tons of *Kraft Mayonnaise*, 65 tons of *Oreos* and *Chips Ahoy* cookies, and 62 tons of *Kraft Macaroni and Cheese*. While the DR technically maintains a tariff of 20 percent on most food products, other added import charges lift the total effective rate to 33 percent. Consequently, it cost Kraft over a half million dollars in tariffs to enter the products we shipped to the DR in 2004. Much of this cost would be passed forward to the DR consumer. Because it is fundamental that the higher the price, the less the consumer buys, there is no question that the present 33 percent effective DR tariff retards sales of Kraft and other imported U.S. food products. Elimination of tariffs would boost sales and could encourage the introduction of new product lines.

Others have already stressed that the U.S. charges no tariffs on nearly all of the food and agriculture products received from the CAFTA-DR countries. From Kraft's perspective, CAFTA-DR would simply level the playing field, and create a more equitable trading relationship.

Solid Prospects for Export Growth in Processed Foods

A recent study by the Grocery Manufacturers of America (GMA) estimated that the potential savings to the processed food industry from the tariff reductions and tariff-rate quota expansions provided for under CAFTA-DR would be nearly \$8.8 million in the first year of the Agreement. This figure grows to nearly \$28 million annually upon full implementation of the Agreement. Upon elimination of tariffs, food exports could, according to this study, increase from \$359 million to \$662 million – an 84% increase over current exports to the region, according to the GMA study.

During 2004, the value of shipments of Kraft consumer products from the U.S. into the six CAFTA-DR countries totaled \$10.6 million. Well over \$2 million in tariffs were paid to enter these goods. Full implementation of the Agreement would, of course, eliminate tariffs on all of our sales to the region. While we expect significantly increased sales associated with implementation of the Agreement, we have not projected expected growth in sales of Kraft products. Ultimately, the greatest benefits to Kraft may come in cheese categories – a sector of the CAFTA-DR market where we now often face insurmountable barriers. The GMA growth forecast could very well be conservative.

Agreement Should Remain Comprehensive – No Exclusions

One of the most important features of the Agreement for Kraft and for the entire U.S. processed food industry is its comprehensiveness. All products are included in the Agreement, including sugar, a key ingredient for Kraft and for many food and beverage manufacturers. The Agreement provides for increased access to lower-priced Central American and DR sugar, but in a very modest way that fully recognizes the sensitivity of this commodity in our country.

Kraft is a strong supporter of trade liberalization and a vigorous advocate for this and most other trade agreements. We believe such agreements create opportunity and are good for our employees, our stakeholders, our industry, and our country.

The food industry believes that no products should be excluded from FTA's negotiated between the U.S. and other countries. We – and most of the U.S. food industry - did not support the U.S.-Australia FTA because sugar was excluded. We're convinced that – as the Australian experience proved – the exclusion of any single commodity from free trade agreements because of our import sensitivities provides our trading partners with an excuse to take their import sensitive issues off the table as well. This downward spiral in ambition jeopardizes the very benefits that our economy derives from free trade. In the case of CAFTA, we would expect that an attempt to re-negotiate sugar would, at a minimum, erode benefits for other U.S. agricultural commodities, possibly dairy and poultry, but more likely this would cause the entire delicately balanced Agreement to unravel.

As a country that enjoys the world's strongest economy, our message to other countries simply can't be that we're only interested in free trade in those goods and services for which we maintain a competitive advantage. I am here today to express Kraft's strong endorsement of this Agreement in its entirety, even though some benefits for U.S. exporters will literally take years to be realized. However, if there were to be a decision subsequent to this hearing that upsets the delicate balance that the negotiators reached in order to forge an agreement by taking specific commodities off the table – including nullification of the current sugar provisions – Kraft would have a very difficult time continuing to support this pact.

As I noted earlier, Kraft is a major buyer and user of sugar. Since a penny change in the U.S. per pound price of sugar means \$8 million annually to Kraft, we regard ourselves as a major stakeholder in the sugar program debate. We recognize the need to preserve a viable domestic sugar industry. The current support scheme, however, essentially imposes a regressive tax on U.S. consumers of sugar-containing products. According to U.S. submissions to the WTO, the tax transfers a trade-distorting subsidy of over \$1 billion annually to U.S. sugar growers. This is money that comes directly out of consumers' pockets.

Kraft favors safety net assistance to agricultural producers, including sugar. There is broad agreement that CAFTA-DR, provides more protection for sugar than for any other commodity, while at the same time adhering to the principle that every commodity needs to be addressed – even if minimally – in free trade agreements. The overall compromise that the negotiators reached on these difficult issues needs to be preserved.

CAFTA-DR, like all trade agreements, is fundamentally a political agreement. As all of you know, political agreements involve compromise and are rarely perfect from all perspectives. While Kraft supports this Agreement, there are elements of the pact we, too, wish were different. For example, it would take 20 years for CAFTA tariffs on

cheese and other dairy goods – products of keen interest to Kraft – to reach zero. Twenty years is the longest tariff phase-out period in the entire Agreement and the longest tariff phase-out the U.S. has accepted in any trade agreement. On the import side, the increases for sugar are very small and the over-quota tariff on sugar is never eliminated – another feature of this Agreement unique to sugar. Though not perfect, we regard this as a good Agreement for us on balance, and we are determined to do all we can to advocate that it is implemented as negotiated.

Critical Non-Commercial Considerations

While we believe that there are adequate commercial reasons to approve this agreement, there are additional factors that should be considered in evaluating this issue. As I noted earlier, Kraft is already active in these countries. Not only do we have customers in these markets, we have employees and shareholders in the region. We are aware that business and industry leaders in these countries are eagerly looking forward to forging a new and stronger trade relationship with the U.S. Kraft believes that CAFTA-DR would strengthen our mutual competitiveness, enhance political stability and contribute to the security of the entire North American continent.

Leaders of these six nations appear to be fully committed to economic development, including the dismantlement of trade barriers. If the United States is unwilling to support and partner with them, the reality is that they would find other eager partners, ceding these key and growing markets to others and further disadvantaging U.S. businesses, employees, ranchers and farmers.

Finally, we believe that Congress should seriously consider the effect of its decision regarding CAFTA-DR on the credibility of U.S. negotiators. Failure of Congress to approve legislation to implement CAFTA-DR would dash the credibility of our trade negotiators and cast a chill over all ongoing U.S. trade negotiations. The perception of our trading partners would be that commitments made by U.S. negotiators cannot be trusted and that the U.S. is abandoning the leadership position it has held on trade since the end of World War II.

Kraft strongly supports CAFTA-DR. We urge the Committee and the Congress to vote for legislation that would implement this critically important agreement.

This concludes my statement. Thank you for your attention.