STATEMENT
OF THE U.S. GRAINS COUNCIL
TO THE U.S. INTERNATIONAL
TRADE COMMISSION

ON THE
UNITED STATES-MEXICO-CANADA AGREEMENT:
Likely Impact on the U.S. Economy and on Specific Industry Sectors
Investigation (No.TPA-105-003)

NOVEMBER 15-16, 2018

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Chairman
U.S. Grains Council
Mr. Chairman, Mr. Vice Chairman and fellow commissioners, my name is Jim Stitzlein. I am with the Consolidated Grain and Barge Company and am currently Chairman for 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, 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 Commission and provide our perspective on the economic implications of the United States-Mexico-Canada Agreement (USMCA) on the U.S. feed grains and ethanol sectors. If finalized, the USMCA would replace the North American Free Trade Agreement (NAFTA), which has been in force since January 1, 1994.

**Importance of NAFTA to U.S. Grains and Ethanol Sectors**

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.

The U.S. feed grains industry has benefitted substantially from NAFTA. 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 to meet their country’s growing demand for meat. Due to the proximity and natural logistics advantages, Mexican feed mills and livestock producers have expanded and gained significant efficiencies by utilizing a “just-in-time” inventory management system based on U.S. reliability of supply.

Mexico has imported more than 15.7 million metric tons (618 million bushels) of U.S. corn in the 2017/2018 marketing year (Sept. 2017 August 2018), exceeding last marketing year’s record-setting total and maintaining the country’s rank as top buyer of U.S. corn. Mexico is also the largest importer of U.S. dried distiller’s grains with solubles (DDGS) this marketing year at 1.13 million tons, up 3.1 percent year-over-year. The country is also a critical buyer of U.S. barley, malt and sorghum.
Canada is a major ethanol and DDGS buyer. The country imports close to 20 percent of its domestic fuel ethanol, nearly all of it from the United States. As the second largest buyer of U.S. ethanol overall, Canada has imported nearly 337 million gallons (equivalent to 119 million bushels of corn) this marketing year. Canadian imports of U.S. DDGS have steadily increased since the 2014/2015 marketing year, with current marketing year imports of 654,000 tons.

Feed grain in all forms (GIAF) variable accounts for feed grains exported by the United States in either unprocessed or value-added forms, which offers a holistic look at demand from global customers being met by U.S. farmers. The United States exported more than 32.6 million metric tons of feed grains in all forms to Canada and Mexico in marketing year 2015/2016, valued at $10.4 billion.

Mexico topped all other markets in GIAF imports, with total marketing year shipments growing 6.3 percent year-over-year to a new record of 25.2 million tons (almost 1 billion bushels in corn equivalent. By category, Mexico ranked as the largest buyer of U.S. corn, barley, and DDGs—with sales in each category increasing from the prior year.

This year’s sales continue strong growth seen over the last five marketing years despite uncertainty surrounding the negotiation of USCMA, thanks in large part to the market access provided by NAFTA and the well-developed North American supply chains as well as the Council’s market development work.

According to USDA’s Long-Term Agricultural Projections to 2027¹, imports by Mexico will account for 15 percent of the increase in global coarse grain trade during the coming decade. This reflects increased meat consumption and production. Mexico’s sorghum imports decreased in 2013/14 and 2014/15 as high demand by China raised sorghum prices relative to corn. Mexico’s imports are projected to remain low reaching 0.5 million tons by 2027/28. Mexico’s corn imports increased the past five years to 16.5 million tons in 2017/18 and are projected to rise from 17.7 million tons in 2018/19 to 23.5 million tons by 2027/28.

Canada is expected to remain a top five importer of ethanol over the next decade, with the U.S. anticipating to continue its 95% market share. Canada should remain a consistent importer of coarse grains as poultry, pork and beef consumption is expected to increase 13.8%, 22.3%, and 8%, respectively over the next decade.

**Economic Implications of NAFTA Negotiations**

To more concretely understand both the risks of ending NAFTA, and the potential improvements from a successful modernization of NAFTA, in 2017 the Council, along with the U.S. Soybean Export Council and U.S. Wheat Associates commissioned an econometric analysis led by World Perspectives, Inc. and the assistance of Purdue University.

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¹ USDA Agricultural Projections to 2027, USDA-ERS, February 15, 2018
With zero tariffs for U.S. feed grains and co-products under the current NAFTA agreement increased market access depends on facilitating trade and the reduction of non-tariff barriers. There is no good quantitative measure of the levels of non-tariff protections or trade costs that can be reduced via negotiating structures, but it is feasible to examine the impact of expanded market access at the margin.

For example, it is possible to experiment with the impact of increasing intra-NAFTA market access by a 1% ad valorem tariff equivalent. In other words, take the negative economic impact of Canada and Mexico both imposing a 1% tariff on imports of U.S. feed grains and then assume the positive equivalent of that economic impact from improving the technical terms of trade (rules of origin, customs clearance, SPS, etc.).

The results demonstrated that the U.S. feed grain industry has the potential to realize gains from improved terms in a modernization of NAFTA, with Mexico a more significant contributor to those benefits than Canada. U.S. corn production increases in value by $80 million, but less than a quarter of that goes into direct export to Mexico and Canada. The majority of the increase in U.S. corn exports to Canada and Mexico is in the form of value-added products from livestock and other foods. Therefore, the increase in U.S. feed grain production it utilized under an improved NAFTA demonstrated there is the potential for gains from further reduced barriers to trade, and particularly for expanding U.S. feed grain and grain derived product exports to Mexico.

**USMCA Provisions**

In our formal comments to the Administration, we advocated that this negotiation should build on and strengthen the objectives under the Trans Pacific Partnership (TPP) that was developed to represent a 21st century high level agreement that serves as a template for all future trade negotiating architectures. In addition to maintaining market access, the Council strongly advocated to strengthen a number of areas to address non-tariff barriers.

With the USMCA provisions below, the agreement should provide more certainty and incentive to improved border infrastructure and modernize border procedures that will allow products to cross borders more quickly, easily and efficiently, without compromising governmental standards regarding food safety, sanitary and phytosanitary conditions, and other regulatory matters. With these improvements, we could foresee even larger economic benefits for increased trade with Mexico and Canada.

**National Treatment and Market Access for Goods**

In our communications with the Executive Branch preceding the negotiations, we exhorted that all efforts should be expended to maintaining all existing commitments in a “do no harm” manner and expanding upon current market access and other provisions that enhance U.S. market share in both the Canadian and Mexican markets, in addition to those that promote economic integration and support farm incomes.

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2 Opportunities for Making U.S-Mexico Agricultural Trade More Agile; Economic Research Service, USDA, August 2016
Under USCMA, market access was preserved with the continued elimination of all tariff preferences and/or quotas for corn, corn-coproducts (corn gluten feed, corn gluten meal), grain sorghum, barley and malt; ethanol and dried distiller grains.

Additionally, the updated agreement provides strong disciplines on export subsidies of all agricultural goods, limits export restrictions for food security purposes; limits the use of agricultural special safeguards on originating goods; and establishes measures to ensure domestic support measures have minimal or no trade distorting or production effects.

Sanitary and Phytosanitary (SPS) Measures

The NAFTA agreement included provisions to establish a framework of rules and disciplines to guide the development, adoption and enforcement of sanitary and phytosanitary measures. While perhaps suitable at that time, subsequent free trade agreements have made significant improvements over the foundational SPS language of NAFTA.

Protectionist sanitary and phytosanitary measures that lack a scientific basis and are not based on a risk assessment continue to unjustifiably restrict access for U.S. food and agricultural exports in numerous foreign markets. While the WTO Sanitary and Phytosanitary Agreement established important science-based principles to challenge such restrictions, enhanced provisions are needed to ensure that SPS issues are resolved in a timely manner and do not result in significant unnecessary delays to our sector’s perishable exports.

TPP provided a strong Sanitary SPS Chapter that builds on the WTO’s 1994 SPS agreement rather than simply reaffirming commitments to the WTO SPS agreement. USMCA provides the highest enforceable standards in any trade agreement, particularly the following areas: Equivalence; Science and Risk Analysis; Transparency; and Cooperative Technical Consultations to resolve issue between parties. In particular, the creation of a rapid response mechanism, including tighter standards and deadlines for adverse import checks will be critical in addressing future SPS issues.

Biotechnology

NAFTA came into force two years prior to the commercialization of the first biotech crops in 1996. Since that time, biotech acreage across multiple crops has grown rapidly because of the increased productivity and environmental benefits associated with this technology.

While products derived from agricultural biotechnology are grown in 28 countries and are traded widely, there remains a lack of synchronicity between countries, particularly countries that approve these products and countries who import them. This unpredictable regulatory and trade environment has resulted in trade disruptions that have caused economic impacts and delayed opportunities for farmers to have access to new technologies.

In an unprecedented manner, the agreement specifically addresses agricultural biotechnology to support 21st century innovations in agriculture. The provisions cover not only traditional rDNA technology but also new plant breeding techniques. It establishes transparency and cooperation obligations in situations where agricultural shipments are found with a low-level presence (LLP) of biotech events approved in the country of export, but not approved in the country of import. It also establishes a working group to cooperate on trade and regulatory policy issues such as risk or safety assessments to facilitate trade in products of agricultural biotechnology.
Agricultural Grading

For the first time, USMCA includes provisions which provide for reciprocal treatment of grading of imported products as domestic goods as well as the assignment of grades requiring the same quality grading certificate and information. It also establishes a dialogue to discuss grading and quality trade-related matters.

Technical Barriers to Trade

The agreement includes provisions that build on the WTO TBT Agreement that promote facilitation of the greater use and alignment of standards, technical regulations, and conformity assessment procedures with relevant international standards, guides, and recommendations.

Good Regulatory Practices

An objective in past and proposed FTAs is the establishment of provisions to foster and open, a fair and predictable regulatory environment for U.S. businesses promoting the use of widely-accepted good regulatory practices including core principles such as transparency, impartiality and due process as well as coordination across governments to ensure a coherent regulatory approach. USMCA includes provisions that provide more predictability and transparency in the development of regulations relevant to U.S. agriculture and associated products.

Customs Administration and Trade Facilitation

USMCA builds on TPP and the WTO Trade Facilitation agreements to help ensure that goods among the three countries will move quickly across borders, governed by facilitative and transparent procedures that require customs authorities to treat goods fairly and reduce conflicts of interest in customs administration.

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.

In no case has this been more apparent than in our trade relationship with Canada and Mexico. NAFTA has provided the trade underpinnings that has resulted in the most efficient and effective interregional grain and livestock value chain in the world.

USMCA improves on this underpinning by providing gold standard trade architecture that will further remove non-tariff barriers and increase the volume and value of unfettered trade between the three countries.

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.