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Montana Association of Grain Growers

Max S. Baucus

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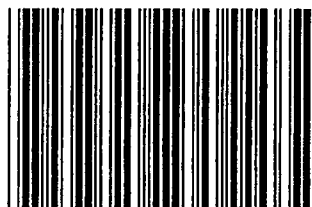
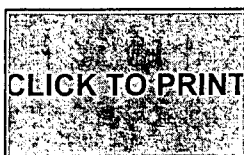
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BAUCUS

United States Senate

WASHINGTON, DC 20510

Remarks of Senator Max Baucus
Montana Association of Grain Growers
Great Falls, Montana

December 2, 1993

Thank you, Randy. It's good to see Jerry Thuesen and Chuck Merja and a lot of other old friends here today -- and most of all, it's great to be back in Montana.

I'd like to talk today about the trade situation grain growers face today. The world we live in is much smaller than the world of our parents. It offers a modern farmer many more opportunities, but it also asks a lot more of them and presents them with some new challenges.

A few of the issues a wheat grower deals with are the same as they were back then. Maintaining the land, dealing with the banks and the weather. But we serve a totally different market. Yesterday we fed America -- today we feed the world. Yesterday we competed with Kansas and Nebraska for the New York market -- today we fight with Canada, Argentina and Australia to feed China.

Montana now exports eighty percent of our wheat crop -- most to China, Japan and Taiwan. Every Montana wheat grower is an international business executive. And as time goes by, Montanans will have to work harder than ever to find new markets.

NAFTA

That's precisely what the NAFTA debate was all about. It gives us a chance to open a new and very important market -- but it also opens us up to new challenges and new competition.

You all know that I was for the agreement -- in fact, I was the Senate floor manager for the NAFTA implementing bill. But I do think the opponents of the agreement, like my friends in the Farmers Union and organized labor, had some reasonable concerns.

On balance, this agreement will be good for America and good for Montana farmers. It's not a perfect agreement -- but if that's what you're looking for, you'll never find it. There's irrefutable evidence that it will create a net gain of tens or hundreds of thousands of new jobs, although opponents were right to say that it will also cause some losses. And although the job training initiative accompanying NAFTA was put together at the last minute, we have the time to go back and make it better.

In agriculture, some of the tariff phase-outs on the Mexican side are too slow. More

problems may crop up, just as they did in the Canadian Free Trade Agreement, but we can address them quickly and confidently as we did on the Canadian wheat crisis.

NAFTA SOLVES CANADIAN SUBSIDY CRISIS

I always feel that when you see something you don't like, it means you have a chance to make it better -- just as the Grain Growers did when you were confronted with an agreement that didn't address our problems with Canadian pricing and subsidies.

These problems may not have been created by our free trade agreement with Canada. But the CFTA certainly did not solve them. Canadian wheat shipments to the United States rose from 23 million to 75 million bushels in the past five years. Canada sold no durum here until the late 1980s; now they have a fourth of our durum market. According to USDA, these unfairly traded imports cost the U.S. \$600 million in extra farm program costs over the last four years.

Your organization approached the issue in just the right way. You saw problems. You knew NAFTA had the potential to make them worse. But you didn't just say no to the agreement -- you went out to fix them. And working together, we succeeded. We got an agreement that is good for American farmers.

NAFTA was and is our best chance to solve the Canadian grain crisis. We had no other avenues, having already lost a dispute settlement decision. So I spent a lot of time with grain growers, and just as much time bringing in Administration officials and members of Congress for friendly talks. And in the end, when the Administration began to count votes, they realized they had to get us fair trade with Canada before Congress would accept free trade with Mexico.

As a result, I have a personal commitment from the President to solve the problem. Here's what we'll see over the next couple of months.

First, Secretary of Agriculture Mike Espy will immediately sit the Canadians down to address pricing practices and wheat exports to the U.S.. We need to get price transparency as soon as possible. We can't compete if we can't find out the score or where the ball is. And we can't compete if Canadians get an advantage of \$20 per ton.

Second, if Espy can't eliminate the unfair practices in sixty days, our International Trade Commission will take action under Section 22 to establish an emergency quota for grain imports from Canada. That is the first new Section 22 action since 1956. It is a monumental achievement.

And third, regardless of these talks, the NAFTA implementing bill requires end use certificates on Canadian shipments of grain to this country, to make sure Canadian grain isn't mixed in with American grain for export. Canada has required end use certificates on our

grain for years. And now Canada will learn that we can do unto them as they do unto us.

Finally, we will get an agreement with Canada to stop subsidizing wheat exports to Mexico, and we will use the Export Enhancement Program in Mexico until the agreement goes into effect.

NEW OPPORTUNITIES FOR GRAIN GROWERS

With the Canada problem on its way to a solution, NAFTA gives Montana's grain exporters the best chance we've had in years. It will immediately eliminate Mexico's import licenses on grain. They will be converted as of January 4th to a 10% tariff, which will fall to zero over the ten-year transition period.

That will give us a critical price advantage in one of the world's fastest-growing wheat markets. Ten years ago Mexico imported 50,000 tons of wheat. By 1990 that had risen to 220,000 tons. Since then, it has nearly doubled every year. Last year, Mexico imported 1.354 million metric tons of wheat -- 818,000 tons of it American. By the end of the transition Mexico will buy 40% more American wheat than it would have without NAFTA.

All of you here today can take a lot of credit for that. Chuck Merja and Randy Johnson worked their hearts out. Frank Schoonover even flew out to Washington. And because nobody gave up, we got a good deal, not a raw deal.

Wheat growers aren't the only winners, either. Mexico's agricultural tariffs now average 16%. NAFTA brings them all to zero, and abolishes Mexico's import licenses, unscientific inspection standards and other unfair trade practices.

For those of you who also graze cattle, that means eliminating a 15% tariff on live cattle, a 20% tariff on fresh beef and a 25% tariff on frozen beef. Overall, American agriculture will export \$2.0 to \$2.5 billion more every year if NAFTA passes, and farm income will rise by up to three percent.

GATT AND U.S. GRAIN GROWERS

The other date is December 15th -- a week from next Wednesday -- when we should conclude a GATT agreement that opens up agricultural markets all over the world.

We began the Round hoping to eliminate all export subsidies for agricultural products; replace some with income supports; and lower the total level of world subsidies.

We are far from that today. Unfortunately, there is no chance to eliminate all export subsidies. But we can still limit the most abusive of them, along with the quotas and outright import bans that keep our grains, rice, apples and wood products out of countries like Japan and South Korea.

BLAIR HOUSE -- A DEAL IS A DEAL

One of the Round's top priorities must be the EC's Common Agricultural Policy. It piles up wheat mountains all over Europe, and dumps excess commodities all over the world. The EC spends about \$11 billion every year just subsidizing agricultural exports. In comparison, the U.S. spends just over \$1 billion on export subsidies through the Export Enhancement Program.

You'll hear some angry talk from the French in the next months. You'll hear a lot about how a fair deal threatens "tradition" and a "way of life" -- and very little about how it really threatens the \$11 billion. So as it gets started, let's look at the facts.

Just fifteen years ago, the EC imported 20 million tons of grain. It was at that time -- in 1978, not back in the Roman Empire or during the days of Louis XIV -- that the EC built its export subsidy program into today's Colossus. As a result of this very deliberate decision, by 1989, high domestic prices, import levies and export subsidies turned the EC's grain trade balance into a net export of 25 million tons. Remember that -- a 35-million-ton turnaround in ten years -- when you see French farmers blocking roads and burning garbage.

We originally hoped to eliminate trade-distorting export subsidies like the CAP entirely. But as it became clear that others were not as enthusiastic, we scaled back our aims. And we wound up last November with the Blair House accord, under which the EC must make a 21% cut in export subsidies.

I regarded that as little more than a humiliating surrender on the part of the Bush Administration. Maybe our original proposal was a bit visionary. But Blair House is practically the export subsidy equivalent of near-sightedness. It covers a limited number of products and requires the EC to do little more than they had already decided to do under internal reforms.

Nonetheless, it is a modest improvement on the status quo. So I am prepared to support it. But if the EC wants to go back to Blair House again, the answer is no. We have already given up too much.

A deal is a deal. And I consider rewriting Blair House a deal breaker. It would saddle American farmers with a bad agreement. And like I told the National Association of Wheat Growers at the Convention last February in California, no agreement is better than a bad agreement.

As we approach the end of these talks, we'll hear a lot of people saying we should give in on agriculture to get a better deal in services or some other area. But you can count on this. Anybody who hopes to stick American farmers with a bad agreement to get a better deal for banks will find me on the other side.

TCK SMUT ISSUE

We have to conclude the GATT by December 15th, so wheat growers aren't going to get much of a rest from the NAFTA debate. You've got to be ready. And although GATT is a lot to think about, I want to remind you to mark one more date on your calendar.

As you may know, I visited China last summer. One of my top concerns there was the falling Chinese wheat buy, and the use of TCK smut as an excuse to block wheat imports from Montana and other Pacific port exporting states.

When I got back I asked the Administration to make the TCK issue a top priority in its trade negotiations with China. Secretary Espy went over a few weeks later, and set a deadline of December 31st for China to eliminate this trade barrier.

In my opinion, that's exactly right. A deadline is the only way to get results. If they understand that the alternative is retaliation against Chinese exports -- and they're running a \$23 billion trade surplus this year -- I think we'll see some movement.

CONCLUSION

We cannot miss any opportunity to open foreign markets to American and Montanan products. Our farmers have become too efficient; we produce far more than America can use. We need to continue to find new markets, whether through bilateral deals like NAFTA, multilateral means like the GATT, or on our own.

Just like the pioneers did a hundred and fifty years ago, or the homesteaders did a few decades later, Montana farmers today have to adapt to new conditions, break new ground and open up new frontiers.

A hundred and fifty years ago, the American West was the new frontier. Next year it will be GATT. And this year it was Mexico. The grain growers here did as much as anyone to open that frontier, and I hope you're all as proud of the work you did as I am to represent you.

Thank you very much.