

Testimony of the Honorable Thomas J. Vilsack
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U.S. Senate Committee on Finance
“The United States-Mexico-Canada Agreement”
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Introduction

Chairman Grassley, Ranking Member Wyden, and members of the committee, thank you for the opportunity to testify before you today. I am appearing before the committee on behalf of America’s dairy farmers and processors as President and CEO of the U.S. Dairy Export Council (USDEC).

USDEC is a non-profit, independent membership organization that represents the export trade interests of U.S. proprietary processors, milk producers, dairy cooperatives, and export traders. The Council’s mission is to increase the volume and value of U.S. dairy product exports.

Testimony Summary

Maintaining our trade relationships and expanding market access for U.S. agricultural goods is vital to the economic health of rural America. The new U.S.-Mexico-Canada Agreement (USMCA) will secure existing markets and open new opportunities by modernizing the 25-year-old North American Free Trade Agreement (NAFTA).

America’s farmers are asking Congress to act quickly to pass USMCA. This trade agreement will bring strong benefits to American agriculture exports, including the U.S. dairy industry, by restoring certainty to U.S.-Mexico trade relations, making needed improvements to U.S.-Canadian trade and upgrading trade rules to discourage nontariff barriers to trade. Among its benefits:

- Strengthens our trading relationship with Mexico by locking in existing zero tariff access to Mexico for agriculture exports. Mexico is by far our largest dairy export destination at \$1.4 billion in sales in 2018 and USMCA preserves our role as the market’s key supplier.
- Makes important advances in removing and reforming key trade-distorting Canadian dairy pricing policies – including Classes 6 & 7 – and in increasing dairy export opportunities to Canada to provide much-needed access to a dairy market largely excluded from the current NAFTA framework.
- Strengthens safeguards regarding U.S. companies’ rights to use common food names through new commitments in the intellectual property chapter and through two side letters with Mexico that aim to preserve market access for those products in that key market.

- Establishes strong sanitary and phytosanitary provisions focused on ensuring the highest scientific standards for food safety while discouraging unscientific barriers to safe food exports.
- Secures improvements for other agricultural sectors, including addressing Canadian nontariff barriers plaguing the U.S. wheat and wine industries, improving access to Canada for U.S. egg and poultry products, and forging new commitments on the safe use of agricultural biotechnology.

Furthermore, the passage of USMCA will send a clear message that the U.S. values robust, rules-based trade with our allies and will give the U.S. the momentum necessary to execute a productive trade agenda that delivers positive benefits for the American people.

It has been a difficult few years as dairy producers have found their livelihoods under threat from falling milk prices that reduced farm income while dairy processors have seen carefully cultivated foreign sales threatened or even dry up in key markets. America's dairy farmers and processors need some good news, and Congress has the power to deliver.

When USMCA comes up for a vote, American agriculture is asking that you stand up for rural America and swiftly ratify this trade agreement.

Free Trade Critical to the Rural Economy

It's a common refrain: America's farmers feed the world. Every single day, our farmers and manufacturers supply markets across the globe with superior agriculture and food products.

According to the U.S. Department of Agriculture (USDA), the U.S. exported nearly \$140 billion in agricultural products in 2018, with the top markets for agricultural products being Canada and Mexico.¹ The success of these trading relationships is built upon the 25-year-old legacy of NAFTA.

NAFTA eliminated all Mexican tariffs on U.S. exports and eliminated nearly all tariffs on U.S. goods entering Canada, allowing trade with our North American neighbors to flourish. Canada and Mexico received more than 29 percent of all U.S. farm and food exports in 2018.

Nearly 1,000 food and agricultural groups, including USDEC, recently sent a letter to Senate and House leadership, illustrating the progress to trade made under NAFTA and the importance of cultivating a more fair and robust trade relationship between the U.S., Canada and Mexico through USMCA. We wrote:

¹ *Agricultural Trade*. (2019, April 4). Retrieved from USDA Economic Research Service: <https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/agricultural-trade/>

“Over the last 25 years, U.S. food and agricultural exports to Canada and Mexico have more than quadrupled under NAFTA – growing from \$9 billion in 1993 to nearly \$40 billion in 2018. NAFTA has significantly helped create a reliable, high-quality supply of food products for U.S. consumers, while supporting more than 900,000 American jobs in food and agriculture and related sectors of the economy.”²

It is clear that agricultural exports have brought significant positive benefits for the U.S. economy that extend far beyond the farm. USDA’s Economic Research Service estimates that every dollar in agricultural goods sent overseas in 2017 generated an additional \$1.30 in economic activity here at home. And every \$1 billion in agricultural exports supports 8,400 American jobs.³ Our trade relationships with Canada and Mexico alone support 330,000 jobs.⁴

America’s dairy industry, in particular, is an economic force that employs nearly 1 million Americans, creates approximately \$38 billion in direct wages for workers, contributes more than \$64 billion in tax revenue and adds about \$620 billion to the U.S. economy.⁵

Trade has been essential to the health of the dairy industry. Our farmers and processors have established themselves as the world’s preeminent suppliers of high-quality dairy products, exporting \$5.6 billion in dairy products in 2018 to customers around the world. U.S. dairy exports in 2018 were the equivalent of 10 million gallons of milk going overseas every day in the form of a wide variety of dairy products from cheese to ice cream to milk powder.

Thanks to the framework of NAFTA, Mexico is currently the largest export destination for U.S. dairy products, with America commanding 80%⁶ of the value of Mexico’s import market and \$1.4 billion in sales in 2018. In 2018, the equivalent of 2.8 million gallons of milk crossed the border into Mexico every day – 28% of what we export worldwide. For farmers, that means that the average dairy cow produces 2.7 pounds of milk daily that goes to the Mexican market. Mexico’s importance to our farmer-owned cooperatives and to dairy processors also can’t be overstated – for instance, U.S. exports to Mexico last year accounted for 49% of U.S. exports of milk powder and 28% of cheese. Those sales have benefited our industry but also our partners in Mexico, as we’ve worked closely with them over the past couple decades to build greater demand for dairy in Mexico – to the benefit of both our industries.

² A Letter from U.S. Food and Agriculture Associations and Companies. (2019, June 6). Retrieved from https://www.usdec.org/Documents/USMCA_Grassroots_Letter.pdf

³ Persaud, S. (2019, February 21). *Effects of Trade on the U.S. Economy*. Retrieved from USDA Economic Research Service: <https://www.ers.usda.gov/data-products/agricultural-trade-multipliers/effects-of-trade-on-the-us-economy/>

⁴ *USMCA: Strengthening Ties with Our North American Neighbors*. (2019). Retrieved from USDA Foreign Agricultural Service: https://www.fas.usda.gov/sites/default/files/2019-07/usmca-infographic-07162019_0.png

⁵ Retrieved from <https://medium.com/dairy-exports-mean-jobs/new-hope-for-a-new-trade-deal-with-mexico-and-canada-44565974b674>

⁶ Global Trade Atlas: Major Dairy Product Categories of SMP, WMP, Whey, Butterfat, Cheese and Lactose

However, right now rural America is facing a crisis. The prolonged rural recession that has gripped the heartland has been exacerbated by trade disputes and uncertainty in the global marketplace. America's dairy industry has been among the hardest hit. Dairy farmers and processors have endured four years of depressed milk prices, jeopardizing family farms and businesses manufacturing high-quality Made-In-America products, and having a negative impact on the communities and economies that depend on these producers. In fact, the U.S. Department of Agriculture recently found that the U.S. lost an average of seven dairy farms every day in 2018.

I recently joined local farming and agriculture groups at roundtable discussions in my home state of Iowa where it quickly became clear that securing market access and restoring certainty to our trade relationships by passing USMCA is a top priority for America's farmers and the wider food and agriculture sector. Finalizing this trade agreement and demonstrating that America is a reliable supplier will be key to turning the tide for the rural economy.

America's agricultural and food communities are asking Congress to secure our trade relationship with Mexico, expand opportunities with Canada, and usher in the significant trading rules improvements USMCA makes for U.S. exports. Congress has an immediate opportunity to help support the future of farming by moving quickly to pass USMCA.

USMCA Modernizes NAFTA

While NAFTA helped set the stage for America to become the leading exporter of agricultural goods, USMCA makes important improvements that will modernize NAFTA and pay dividends to both the farming community and the economy as a whole.

According to the U.S. International Trade Commission's report on the likely impact of USMCA, full implementation of this trade agreement will increase annual U.S. agricultural and food exports by \$2.2 billion. Additionally, it will "likely have a positive impact on all broad industry sectors within the U.S. economy," raising the GDP by \$68.2 billion and increasing employment by 176,000 jobs.⁷

The International Trade Commission stated that the dairy sector ultimately stands to gain more than \$314 million in expanded sales to Canada, Mexico and other global markets as a result of USMCA's provisions.⁷ The U.S. dairy industry estimates that over the first six years of implementation, U.S. dairy farm revenue will increase by a total of an additional \$548 million.

⁷ (2019). *U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*. Washington, DC: United States International Trade Commission.

USMCA will lift the cloud of uncertainty hanging over North American trade and adversely affecting U.S. farmers and exporters by safeguarding our valuable export market in Mexico and instituting improvements to trade with Canada.

Strengthens Trading Relationship with Mexico

Under USMCA, agricultural tariffs between the U.S. and Mexico will remain at zero. This is critical for the U.S. dairy industry, as Mexico is our number one export market. Furthermore, without a trade treaty in place, the dairy industry would be hard pressed to maintain and expand these sales, as our competitors in Europe are expected to implement a lucrative new trade arrangement with Mexico by next year. As noted below in the section on USMCA's preservation of common food names, USMCA includes key new Mexico-specific commitments designed to further shore up our market access rights to that top dairy market.

Makes Important Advances in Dismantling Canada's Dairy Trade Barriers

Only limited dairy market access to Canada is granted under NAFTA today. Adding insult to injury, Canada's damaging trade practices have further limited U.S. export opportunities and thereby resulted in lost revenues and jobs for the U.S. dairy industry. While USMCA does not address the full range of Canada's problematic tariff and nontariff policies, it makes very important advances, including opening up new export avenues, the elimination of Classes 6 & 7 and additional reforms to Canada's controversial dairy pricing system.

USMCA delivers additional export market access in Canada for U.S. dairy products across a diverse range of product categories. The access exceeds that secured previously by the U.S. in the Trans-Pacific Partnership context by virtue of being granted exclusively to U.S. suppliers. This expansion of access to the very tightly constrained Canadian market is very welcome and will create some new opportunities for the U.S. dairy industry in Canada's trade-restrictive market.

In addition, USMCA eliminates Canada's Class 6 & 7 dairy pricing system six months after implementation and establishes new pricing structures for skim milk powder (SMP), milk protein concentrate (MPC), and infant formula. For the remaining products that were previously covered by Classes 6 & 7, USMCA mandates that Canada reclassify them so that their associated milk class prices be established appropriately based on end use. The intent of this is clear: for instance, ultra-filtered milk that is used, in either liquid or dried form, in the production of cheddar cheese must be classified in milk class 3B; similarly, this ingredient must be classified in milk class 2A if used in the production of yogurt.

USMCA also establishes annual export limits on Canadian exports of SMP, MPC, and infant formula, above which export surcharges are levied. The clear goal of this portion of the agreement is to constrain Canada's ability to dump unlimited quantities of dairy products onto global markets. To carry out this commitment, Canada must ensure that these surcharges function as intended to discipline the export expansion of these product areas and that the

export surcharge proceeds are not in turn redistributed to industry or otherwise offset by other support programs.

Finally, the agreement introduces robust transparency and consultation commitments with Canada on dairy. Given Canada's entrenched track record of intentionally using policy tools to undermine trade commitments and refusing to provide all relevant information on its programs, these represent vital elements to ensuring the U.S. is able to fully realize the benefit of the pricing policy disciplines introduced by USMCA. The reforms USMCA makes to a number of Canada's trade-distorting dairy policies and the expansion of market access it ushers in will create new opportunities for American farms and businesses.

As a result of these policies and others in the agreement, USMCA provisions will ultimately bolster U.S. sales to Canada, Mexico and other global markets by \$314.5 million according to the International Trade Commission.

I would like to underscore to the committee that achieving this forecast and maximizing the ultimate impact of the USMCA agreement on U.S. dairy trade with Canada will depend on how it is implemented by Canada and enforced by the United States. Reaping the full benefit of the impactful provisions painstakingly secured by U.S. negotiators in USMCA will require proactive work with Canada in advance of their implementation of the agreement to ensure that revised policies fully comply with the letter and intent of their commitments under USMCA and vigilant enforcement efforts should Canadian policies deviate from USMCA's focus on uprooting the harmful and global trade distorting impacts of Canadian dairy policies.

Strengthens the Rights of Common Food Names Users

USMCA also includes multiple provisions aimed at tackling the misuse of geographical indications that erect barriers to U.S. exports of products that rely on common food names. As the EU continues to work to erect nontariff barriers to U.S. exports in various markets through its free trade agreements, these provisions are essential to preserving our North American access rights, particularly with Mexico given its agreement with the EU last year, and to establishing strong precedents upon which the U.S. should build in securing firm commitments upholding our market access rights with other trading partners. Below is an overview of those provisions:

Non-exhaustive List of Commonly Used Cheese Names.

A side letter to USMCA establishes a ground-breaking precedent by providing clear market access assurances on a non-exhaustive list of commonly produced products that Mexico may not restrict moving forward, including terms such as mozzarella, cheddar, havarti, swiss, and others. As our European competitors are likely to continue to seek to chip away at our rights to use these terms, active monitoring and enforcement by the U.S. of this clear prohibition on any restriction on the use of these terms will remain vital as USMCA is implemented.

US-Mexico Side Letter on Prior Users of GIs.

Another valuable commitment secured in USMCA is a second side letter with Mexico clarifying that “prior users” granted grandfathering rights under the 2018 EU-Mexico trade agreement includes all elements of the supply chain, namely producers, distributors, marketers, importers and exporters. This letter maximizes the ability of U.S. companies to continue to export their products to this important market and of Mexican companies to maintain wider supply source options.

Government to Government Consultations on GIs.

USMCA includes an important new commitment specifying that the Committee on Intellectual Property Rights shall “endeavor to reach a mutually agreeable solution before taking measures in connection with future requests of recognition or protection of a geographical indication from any other country through a trade agreement”. This requirement for government to government consultations and the directive to work to arrive at solutions of mutual interest to the Parties is a much-needed and very welcome addition to the Administration’s ability to defend the interests of U.S. stakeholders against the predatory efforts of non-Parties to use trade treaties to erect barriers to trade in common product categories under the guise of GI protections.

Due Process Disciplines for Geographical Indications.

The intellectual property chapter of USMCA establishes a critical framework for beginning to introduce more transparency and due process procedures to the area of GI consideration and should help to mitigate against the inappropriate future registration of unwarranted GIs, including by providing those opposing a GI with greater tools to object to a term’s restriction. This would avoid future scenarios like that in the Canada-EU FTA in which Canada simply acquiesced to a long list of GIs proposed by the EU without any public notice or input.

As noted above, careful monitoring of USMCA commitments will be essential to prevent registration of GIs or trademarks for GI products that restrict the use of commonly used terms in a manner that is contrary to either the letter or spirit of the agreement’s provisions.

Looking ahead, USMCA contains numerous positive elements that collectively establish a basic structure on the topic of GIs and common food names upon which the U.S. can and should build further in trade discussions with other countries as well. To assist with this process, I encourage the Senate Finance Committee to hold a hearing examining the global challenge posed by the EU’s geographical indications policies and arrangements to U.S. food and agriculture exports relying on common food names.

Establishes Strong Sanitary and Phytosanitary Provisions

USMCA establishes modern, science-based sanitary and phytosanitary standards to ground regulations in ways that should help prevent nontariff barriers to trade. The International Trade

Commission's report on USMCA noted the economic benefit of improved sanitary and phytosanitary provisions in USMCA:

"Transparency, harmonization, and cooperation in SPS measures have been shown to facilitate trade in the long run by lowering cost and risk. Multiple forms of regulatory coherence, including through trade agreements, can boost both trade and investment by supporting global value chains. In particular, trade agreements that include SPS cooperation and transparency have been shown to reduce trade costs."⁸

Secures Improvements for Other Agricultural Sectors

USMCA will bring sizable benefits for other agricultural sectors as well, most notably by ending discriminatory pricing for wheat exports to Canada, removing nontariff barriers to U.S. wine exports to Canada and increasing Canadian market access for egg and poultry products.

USMCA's changes to Canada's current grain grading system will help improve the fairness of wheat trade between the U.S. and Canada. While U.S. wheat exports to Canada under NAFTA are automatically designated as the lowest grade wheat, USMCA will enable certain U.S. varieties registered in Canada to be afforded reciprocal treatment.

For the poultry industry, USMCA requires Canada to provide new access for U.S. chicken and eggs by establishing a U.S.-specific duty-free tariff-rate quota on chicken meat and eggs in addition to Canada's existing World Trade Organization commitments. According to the North American Meat Institute, "Model results indicate that U.S. poultry meat exports to Canada would increase by \$183.5 million, or nearly 50 percent, in year six of the agreement."⁹

Additionally, USMCA secures increased access for turkey, resulting in a 29 percent increase in U.S. turkey exports to Canada, according to estimates from the National Turkey Federation.¹⁰

Lastly, USMCA eliminates discriminatory trade practices that have hindered U.S. wine exports. With Canada being the number one export market for U.S. wine, reaching \$1.53 billion in winery revenues in 2017, increasing market access in Canada will be a major boon for U.S. farmers and producers.¹¹

⁸ (2019). *U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors*. Washington, DC: United States International Trade Commission.

⁹ ITC Releases Report on USMCA. (2019, April 23). Retrieved from North American Meat Institute: <https://www.meatinstitute.org/ht/d/ArticleDetails/i/155617>

¹⁰ *NTF Statement on U.S.-Mexico-Canada Agreement*. (2018, October 2). Retrieved from National Turkey Federation: <https://www.eatturkey.org/2018/10/02/ntf-statement-on-u-s-mexico-canada-agreement/>

¹¹ *Wine Institute Applauds Market Access Gains Made in U.S.-Mexico-Canada Agreement (USMCA)*. (2018, October 1). Retrieved from Wine Institute: <https://www.wineinstitute.org/resources/pressroom/10012018>

Looking Forward

Our trade negotiators should be commended for their tireless work on behalf of America's farmers and ranchers. America's agricultural economy relies on a predictable, transparent and rules-based system of international trade to provide certainty and opportunities to grow. A swift ratification of USMCA will signal to the rest of the world that the U.S. values our free trade relationships and we are open for business.

Beyond USMCA, America is engaged in trade negotiations with countries that represent high-potential markets – namely Japan and the United Kingdom. The results of those agreements will directly affect the future of dairy farmers, dairy manufacturers, and rural communities from coast to coast. Passage of USMCA will allow trade negotiators to work effectively on other issues of paramount importance to the U.S. dairy industry, such as resolving differences with China that have led to harmful retaliatory tariffs, swiftly forging a strong agreement with Japan that improves upon the trade treaties it shares with other nations, forging a strong free trade agreement with the U.K. should its Brexit terms allow a negotiation with the U.S. to proceed, addressing our lopsided dairy trade deficit with Europe, and pursuing beneficial new trade treaties with dairy-deficit partners such as those in Southeast Asia.

However, we must tackle the most pressing item first: America's current trade agenda begins with passage of USMCA. When USMCA comes up for a vote, U.S. agriculture is asking that you act quickly to ratify this trade agreement.

Once again, thank you for the opportunity to testify before this committee, and for your leadership on these vital issues for rural America.