

**Statement of A. Ellen Terpstra, Administrator
Foreign Agricultural Service
U.S. Department of Agriculture
Before the Senate Committee on
Commerce, Science, and Transportation
Washington, D.C.
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Senator Dorgan, members of the Committee, I appreciate the opportunity to appear before you with Ambassador Johnson to discuss the results of the Section 301 investigation of the trading practices of the Canadian Wheat Board.

The U.S. Department of Agriculture's Foreign Agricultural Service (FAS) has been working closely with the U.S. Trade Representative's office on this issue since the North Dakota Wheat Commission first filed its petition in September 2000. Of course, our wheat analysts and trade specialists have been addressing wheat trade issues with Canada for many years, as part of our primary mission to maintain export markets and expand export opportunities for the U.S. food and agricultural sector. This effort is critical to our wheat industry, which typically exports about half of its production.

USDA is fully supportive of the U.S. Trade Representative's decision to seek relief for our wheat farmers from the trading practices of the Canadian Wheat Board. The findings from the Section 301 investigation clearly establish that the trade-distorting practices of the Canadian Wheat Board, and Canada's restrictions on imports of wheat, adversely affect the U.S. wheat industry.

We are working closely with Ambassador Johnson and others at the U.S. Trade Representative's office as they:

- pursue comprehensive and meaningful reform of single-desk state trading enterprises (STEs) in the World Trade Organization (WTO) agriculture negotiations;
- examine taking a dispute settlement case against the Canadian Wheat Board in the WTO;
- work with the North Dakota Wheat Commission and the U.S. wheat industry to examine the possibilities of filing U.S. countervailing duty and antidumping petitions with the U.S. Department of Commerce and U.S. International Trade Commission; and
- identify specific impediments to U.S. wheat entering Canada and present them to the Canadian government.

USDA agrees that the actions outlined in the decision will help move us towards removing this long-standing barrier in U.S.-Canada relations. We are committed to working with Ambassadors Zoellick and Johnson to reform permanently single-desk state trading enterprises during the WTO negotiations.

Negotiations on STEs could be particularly important to the U.S. wheat industry since both wheat exporters and importers benefit from STEs. The Canadian Wheat Board and Australia's wheat board (AWB, Ltd.) are the major STEs involved in wheat exports. Together, these two organizations control roughly one-third of world wheat exports. Countries that use STEs to regulate or control wheat imports include Japan, China, India, Egypt, and some countries outside of the WTO such as Algeria and Iran.

State trading enterprises with exclusive export rights are a particular concern because they do not have to answer to the market and they have the inherent ability to distort trade. Much of this concern arises from the lack of transparency in the practices of such STEs, the special privileges of single-desk sellers that result in unfair advantages, and financial backing by their governments.

WTO negotiations should produce disciplines that will force fundamental reform of such organizations -- the best way to permanently assure that U.S. producers are treated fairly in the world market.

As we continue to pursue remedies through trade negotiations, we also have been working with Canada to resolve some of the thorniest agricultural issues between our nations. The 1998 Canada-U.S. Record of Understanding contained several provisions relating to grain trade. Our two countries have been holding quarterly grain consultations that provide us with an early indication of Canadian shipments to the United States.

The In-Transit Program for Grains is a good example of the benefit of these ongoing discussions. This program provides transportation alternatives to U.S. grain shippers by facilitating the shipment of U.S. grains through Canada to final destinations in the United States. Last year (calendar year 2001), more than 1 million tons of U.S. wheat and barley were transported through the western Canadian rail system to end users in the western United States. More than 80 percent of that was wheat. North Dakota accounted for about 70 percent of all the grain shipped under this program.

In the long run, trade liberalization offers us the opportunity to boost U.S. agricultural export sales by expanding existing market access and opening new markets. As President Bush

and Secretary Veneman have said, we cannot afford to sit on the sidelines while other countries negotiate preferential trade agreements. For example, Canada and Chile implemented their free trade agreement in 1997. As a result, Canada now enjoys duty-free access for its wheat, while U.S. exporters face a 7 percent duty.

We need Trade Promotion Authority to maintain U.S. leadership in initiating and writing new agreements; without it, other countries will write the future rules of trade – rules that will be made without taking into account our interests. American farmers, workers, and consumers will eventually pay the price for inaction. As Secretary Veneman said at the launch of the Doha Development Agenda, expanding global markets for our farmers is vital to the long-term prosperity of our highly productive agriculture and food sector. Our farmers are ready to compete for business and it is our job to do everything we can to ensure that the competition is fair.

That completes my statement, Mr. Chairman. I will be glad to answer any questions.