Transcript of remarks
By Ellen Terpstra, Deputy Under Secretary for Farm and Foreign Agricultural Services
USDA's Annual Outlook Forum
Arlington, VA
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MS. ELLEN TERPSTRA: I'm going to speak about our very important trade objectives, the Doha Round, FTA, the need for TPA extension, touch on the importance of dealing more effectively with SPS, sanitary and phytosanitary issues, the trade aspects of the Farm Bill proposals and then some summary observations.

First, this morning the Secretary actually will be providing our March 1 update on agricultural exports, so the data you're seeing here is based on our November estimate. We're facing the fourth year of record agricultural exports, forecast at $77 billion to be shortly updated. As you can see, we've made significant progress over the years since 2001, and that a larger share of our exports are now high-value consumer goods. We're seeing considerable growth and record sales, particularly for livestock and horticultural products.

I think these charts are particularly interesting. U.S. agricultural export growth is led by the North American Free Trade Agreement, NAFTA, the countries of Canada and Mexico, which are now our top two export markets, as well as China which has become a booming market for our farm products.

Clear from the chart on the right is that the share of U.S. exports going to the NAFTA partners has risen dramatically, while the share of our exports heading to the European Union has fallen to a historic low. NAFTA's been a very positive force for our agricultural exports. Since its implementation we've witnessed a dramatic growth in trade in all agricultural products.

There's two reasons NAFTA has been so valuable. First, it's a comprehensive agreement with regard to agriculture, and second of critical importance NAFTA has provided a clear and certain path to liberalized trade. This predictable framework has been essential in attracting new investment, technology and talent that's necessary for sustained economic growth and an increasingly global marketplace.

Now the top 10 markets, and this is new information. We are releasing this information today. It's based on the updated forecast. Canada remains our top market at $13 billion estimated for this fiscal year.

There's a couple of firsts on this table which are important to note for 2007. In November for the first time, Mexico surpassed Japan as a market for U.S. products, becoming our number two market. The estimates shown up here for exports to Mexico is actually an increase of $700 million over our November forecast. That's quite notable.

Another first this year was China surpassing the European Union in total imports of U.S.

products. China has had a record of U.S. imports in many of the years since it joined the WTO. Before it became a WTO member, we were exporting about $2 billion a year to China. Last year, in 2006, we sold more than $6.6 billion and you can see here that the forecast for this year is almost $2 billion more than the last year.

As a side note, because of the great potential we see in China I would note that USDA has our largest presence in China of any country in the world. We have offices in GuangZhou, Shanghai, Beijing, and we're opening two new offices-- one in Chendu and another in ShenYang.

Next slide. Strong world economic growth, particularly in developing countries, provides a foundation for gains in U.S. agricultural exports. Higher commodity prices due to expansion of global biofuels demand also contribute to the grains value of U.S. exports. Overall, the value of our exports is projected to grow from $68.7 billion in FY 2006 to nearly $95 billion in 2016. This is an $8.5 billion improvement in the long-term outlook from what was published in our baseline just last year. Clearly, exports in biofuels are the major driving forces behind growth in farm incomes and improvements in producers' farm equity.

America's farmers and ranchers recognize that trade does matter. With 95 percent of the world's population outside of the United States, the international marketplace has been and will continue to be of great importance. However, with ethanol and biodiesel production expected to more than double to 12 billion gallons by 2016, biofuels production will be another major contributor to farmers' income and assets. Expansion of corn-based ethanol production in the U.S. is expected to affect virtually every aspect of the field crop sector ranging from domestic demand in exports to prices in the allocation of acreage among crops.

Combining growing domestic demand for biofuels with rising foreign demand for U.S. agricultural products will significantly improve the outlook for the U.S. agricultural sector.

According to ERS's latest 10-year projections, increasing use of corn for U.S. ethanol production and rising world prices will limit U.S. export growth in terms of quantity, but prices will be high. We do expect corn exports to rebound to current levels. High prices, however, will encourage production in other foreign countries.

This results in the U.S. share of the world corn trade falling slightly from the current levels of 60 to 70 percent down to 55 to 60 percent.

Now this is a graph that shows the importance of export markets to many of our specific commodities. It's based on historical trade reflecting trade earlier in this decade. But it again emphasizes that about 70 percent of U.S. cattle hides, cotton and almonds were exported, about half of our grapes, dried plums, rice and wheat, and about 37 percent of our soybeans.

The mix of products that we send overseas has changed over time. Today it's about evenly divided between our bulk products like grains and our higher-value products like meats and fruits and vegetables, dairy products, and other processed foods.

So what does the future look like for us? Demographic changes bode well for our future sales level. By 2020 the size of the middle class throughout the world is expected to double to almost 1 billion households with 87 percent of that growth coming from developing countries, particularly China and India. The middle class in developing countries could reach 715 million households by 2020, up 160 percent from 2004 levels.

Meanwhile, food consumption in developed countries will also continue to change as consumers shift the composition of their food spending to realize greater dietary variety, health benefits and convenience. In coming years as American agriculture continues its impressive productivity gains, it will certainly need more access to markets in developing countries where the world's growing middle class resides.

Now let's turn to the trade agenda. You'll recall that although the United States made a bold, ambitious proposal for reform in October of 2005, our trading partners have not yet met our ambition. Talks were suspended last July and followed by quiet discussions throughout the fall. Most of this time was also spent exploring in detail the substantive issues rather than just the headline numbers. Governments also have been exchanging views on sensitivities and priorities.

At the Davos meeting held in late January, governments were encouraged to intensify these bilateral discussions, which they have as recently as last week. Also, Geneva-based informal meetings have resumed. This chart should remind us why we're so concerned about market access. It shows us that the average world tariff bound under the WTO is 62 percent compared to the U.S. average bound tariff of 12 percent. We have a very competitive agricultural sector, but if you've got barriers like these adding to the cost of doing business, it hinders trade. Certainly an ambitious outcome to Doha will help us improve our export opportunities.

The United States remains committed to an ambitious Doha agriculture agreement, one which will deliver substantial new trade flows and opportunities for U.S. agricultural producers. Most importantly, increased access must not be negated by the loophole, by the exemptions that must be still negotiated for sensitive products, special products, and special safeguard mechanisms.

Exceptions to tariff cuts must be limited, and the cuts must be deep enough to lower applied rates, not just bound rates. It's imperative that our bold offer to cut domestic support be met with equally significant offers by the rest of the world to improve market access.

I'd be remiss if I didn't also mention the two cases in which our programs are currently being challenged in the WTO. Regarding the Brazil cotton case, the WTO compliance panel met earlier this week in Geneva. The final report is not expected until June of

2007. If the panel determines that U.S. actions were not fully or not sufficiently in compliance, then a subsequent action would follow to determine the level of compensation.

However, the U.S. government is actively defending the actions already taken on our cotton program as a result of the 2005 dispute settlement ruling. The other case of course is the consultations that Canada requested. You'll see here a listing of their allegations. Eight other countries joined in the request for consultations, and participated in the discussions held on February 7. At this juncture, it's too early to tell what course this particular issue will take, but the U.S. stands ready to discuss further with Canada their interest in understanding the operation of our programs.

Now, on to the FTAs. NAFTA has accounted for most of the growth, a very significant portion of the growth of our exports in recent years. We had a $17 billion increase in our exports over the time period of the last decade. And again that will be adjusted shortly by the Secretary when he makes his announcement.

And 85 percent of the growth of that $17 billion increase is due to increased exports to Canada and Mexico. This is a testament to the benefits of NAFTA. Our exports to our NAFTA partners will total a record $25 billion in 2007, or roughly one out of every $3.00 in total U.S. agricultural exports.

One of our priorities this year is the smooth transition to full implementation of NAFTA on January 1, 2008; and we are working very closely with Mexico to achieve this. In fact, Secretary Johanns will be in Mexico City next week to meet with the top officials of the administration there and to discuss this objective.

The CAFTA agreements, another area of great potential for American agriculture. Four of the six CAFTA participants have implemented agreements with the United States at various times over the past year, and we expect the President to announce very shortly implementation of the agreement with the Dominican Republic, and Costa Rica's president is pressing hard for its agreement to be ratified by its government in the coming months.

Already we are seeing U.S. exports to this region expand at a pace above the rest of the world. At USDA we want to work with American agriculture to make sure we take full advantage of these new opportunities. We have added additional resources, both in Washington and in the CAFTA countries to work with you to have that achieved.

I'd also point out that we have concluded recently other agreements that stand ready to be implemented. The U.S./Columbia Trade Promotion Agreement will lock in duty-free treatment immediately on over half of current U.S. agricultural exports to Columbia. The U.S./Peru Trade Promotion Agreement will lock in duty-free access for nearly 90 percent of current U.S. agricultural exports.

We also have concluded negotiations with Panama and are going through a verification process. We are optimistic that that agreement will also get treatment under the current Trade Promotion Authority.

Finally, as you know we are actively negotiating on two other FTAs-- Korea and Malaysia. Korea is currently our sixth largest export market. However, its average bound tariff is over 50 percent. We believe that once the tariffs are removed this will allow for even better access for our horticultural products. For example, our citrus industry is currently exporting about $100 million worth of product despite a 50 percent tariff. And for table grapes, which is facing 45 percent tariff. There's also good growth opportunities for pork, poultry and beef as well as grains and processed foods.

In addition to tariff elimination, we are discussing SPS measures including biotechnology regulation, equivalency for all meat, and following the OIE guidelines for trade in products such as beef and chicken when there are occurrences of BSE or outbreaks of AI.

The deadline for this negotiation is the end of March, and talks will resume next week.

We've also been having discussions with Malaysia, and currently the next round of those talks is not yet scheduled, but we expect to hear tomorrow from the Malaysians after their meeting to determine if there is a way forward in those negotiations.

I would just note that Trade Promotion Authority expires at the end of the June. This is an imperative authority for us in order to credibly negotiate in either the Doha Round or in FTAs. We've seen great results from our free trade agreements, and we are hopeful that we will have this authority so that we can continue to make opportunities available for American agriculture.

Let me make one comment about SPS measures. As tariffs and quotas are removed, SPS barriers clearly come to the forefront. Not only do we seek efficient and effective regulatory systems here and abroad, but we expect our trading partners to adhere to the WTO SPS agreement and the guidelines of the three international standard-setting bodies.

Our experiences with BSE and AI have brought home how difficult it has been to have trading partners recognize and adhere to these agreements and standards. Regaining the export market for beef and beef products has been especially challenging, but we have reopened or maintained access to over 40 markets, and have increased trade in 2006 by 50 percent over the prior year. A few major markets in Asia remain problematic.

Our position is that governments should be applying import requirements that are consistent with the international guidelines. We expect to have an OIE BSE classification for the United States adopted on May 20th and trade to resume on an appropriate basis at that point. Until we better achieve adherence to the WTO SPS agreement and science-based rules, trade is subject to severe disruption and it's difficult to conduct on a commercially viable basis.

And finally, let me very briefly touch on a couple of the trade-related provisions in the

Secretary's Farm Bill proposals. I wanted to particularly note that we propose establishing a new $20 million grant to deal with emerging SPS issues. Anyone who's involved in trade knows that this is a critical area that we will all benefit from if we can put more resources to it. We also propose to increase the funding for the TASC program, the Technical Assistance to Specialty Crops.

And we also propose to enhance U.S. presence in the international standard setting bodies that we want to strengthen and support. Just as an example, within the U.S. Food and Agriculture Organization, the EU provides of the hundred slots there basically 83 percent; we provide 1 percent. That's a huge difference. That's a matter of funding and having the resources available to have America be present in these organizations.

In conclusion, let me sum up that we see a very positive long-term outlook for American agricultural exports building on the strong record of the last four years. Free trade agreements have shown very impressive results for focusing additional resources to work with our industry to maximize the benefits from CAFTA as it's fully implemented. Successfully concluding an ambitious Doha Round would result in substantial additional trade flows and provide many opportunities for our agricultural sector.

We'll continue to press our trading partners to use science-based regulatory systems and follow international guidelines, particularly regarding BSE.

And finally, we look for the adoption of a Farm Bill this year that will enhance our future in world trade.

Thank you.

[Applause.]

International Agricultural Trade Outlook

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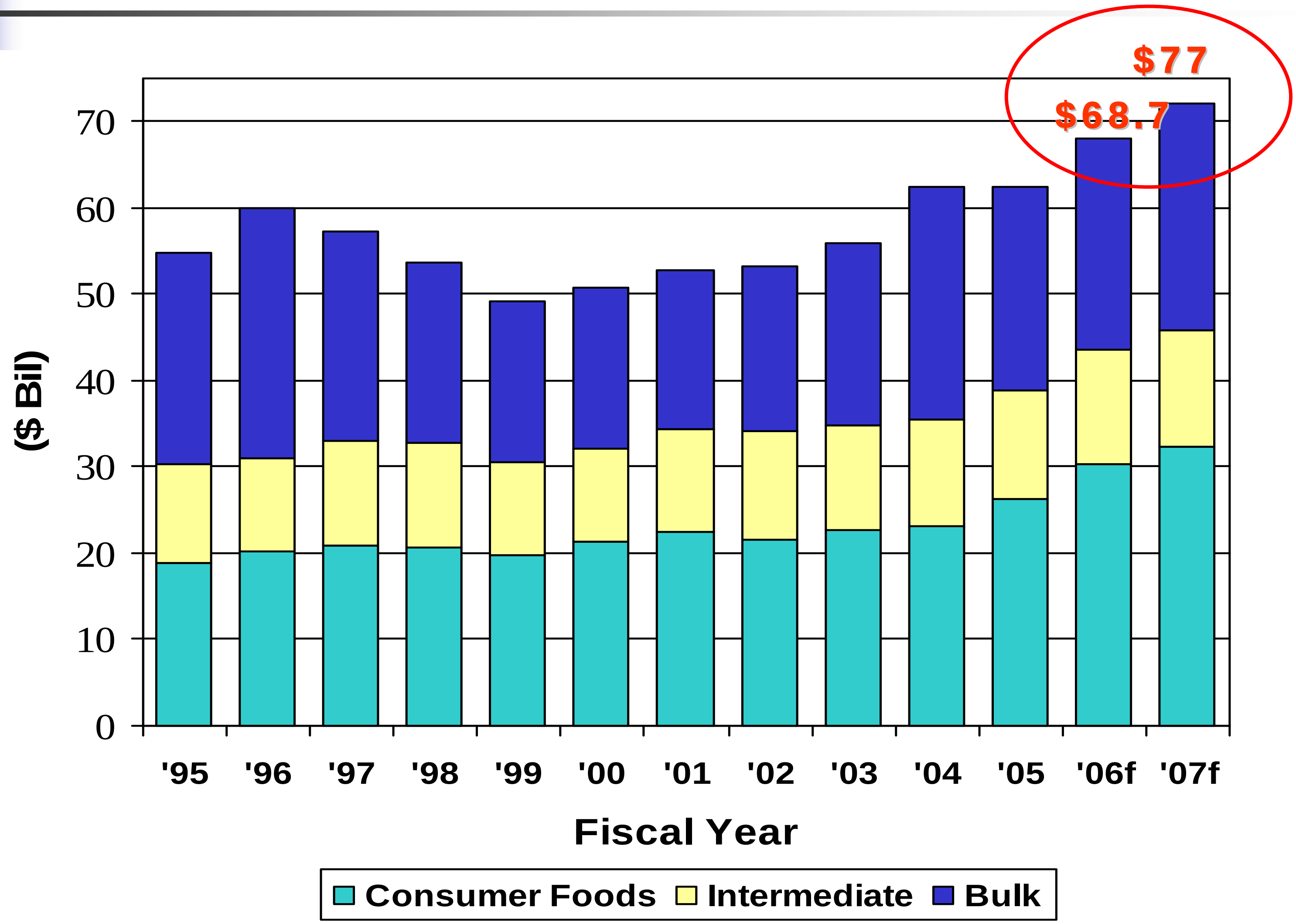
International Agricultural Trade Outlook

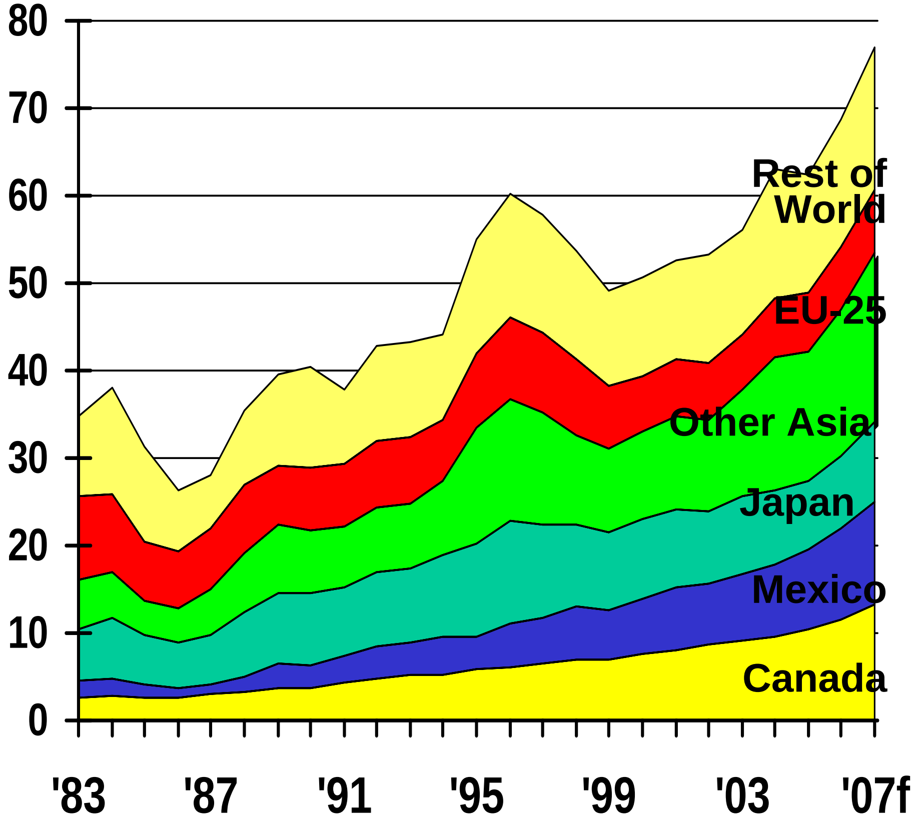
- U.S. Agricultural Exports
- The Trade Agenda
  - WTO
  - FTAs
  - TPA Extension
- SPS Issues
- Farm Bill Proposals
- Summary Observations

U.S. Agricultural Exports

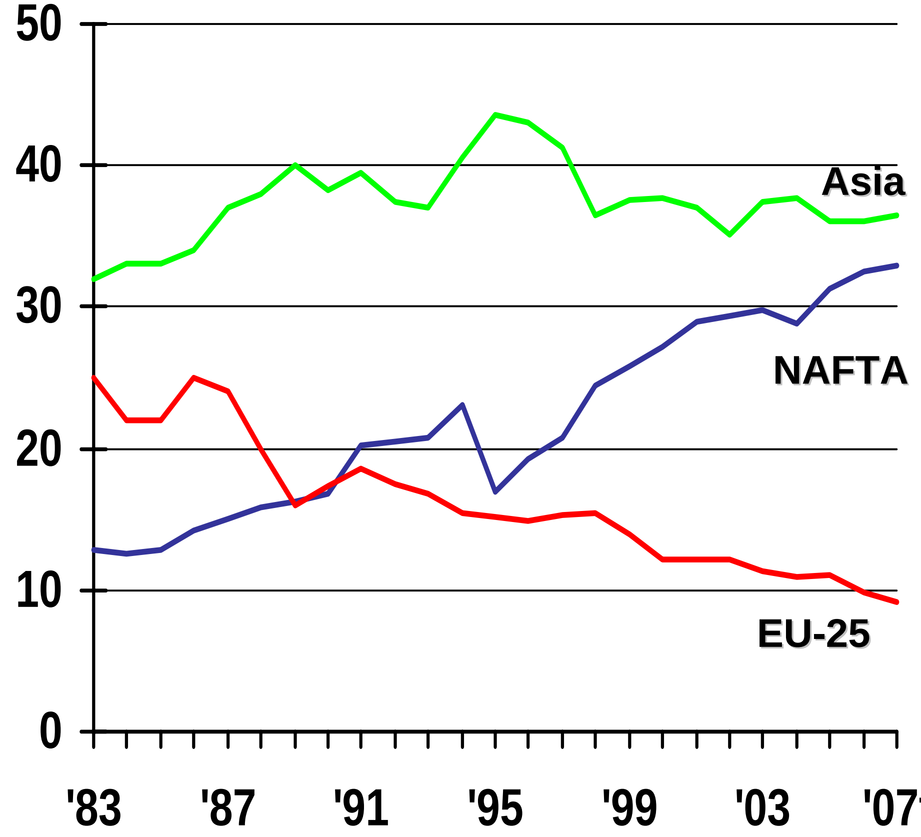


U.S. Agricultural Exports

US Ag Exports ($ Bil)



Share of Exports (%)



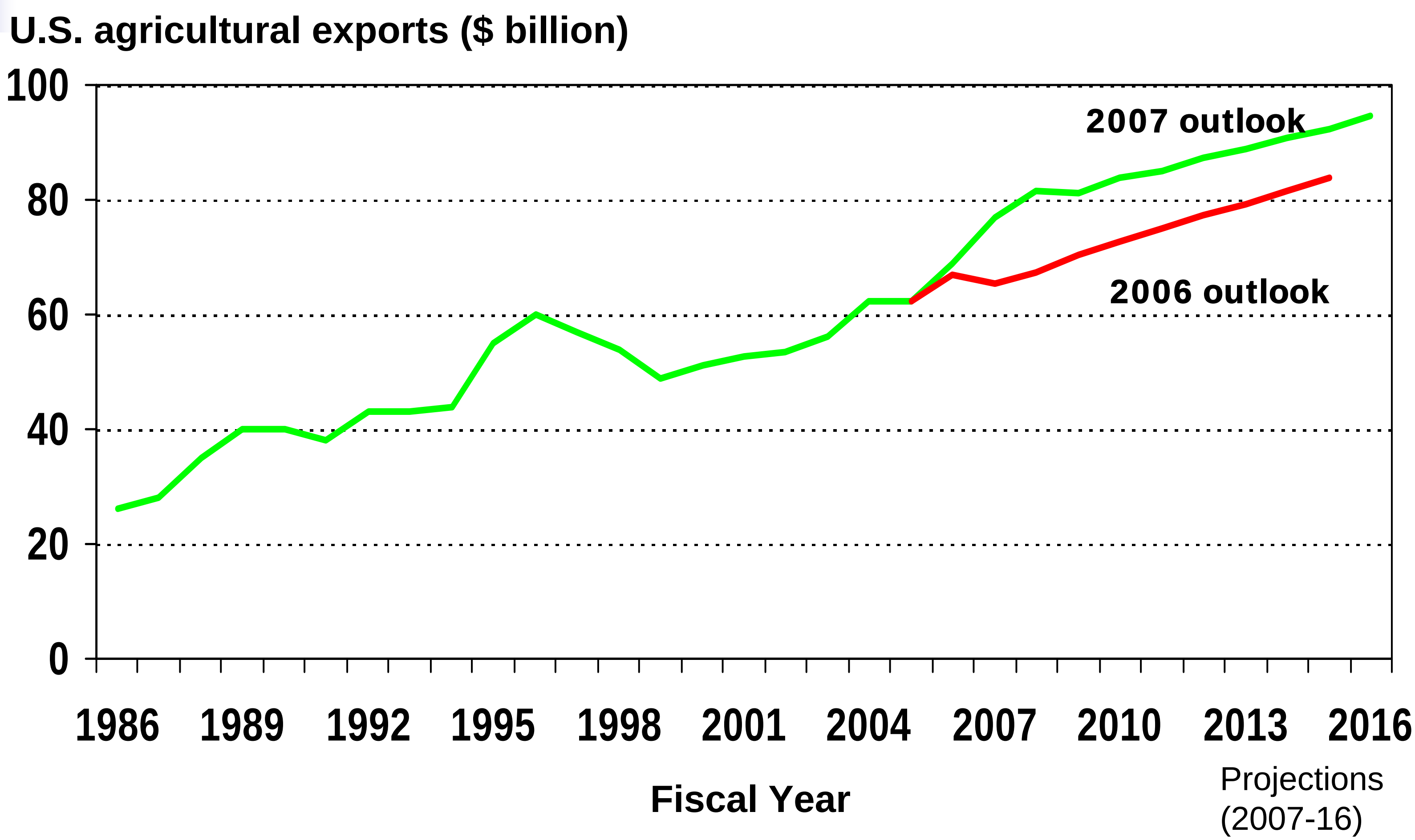
Top Export Markets

($ billions, FY basis)

	2007f	1996	% Δ from ’96-07
Canada	$13.0	$6.0	117
Mexico	$12.6	$5.0	152
Japan	$9.3	$11.9	- 22
China	$8.3	$1.8	361
EU-25	$7.4	$9.0	- 18
South Korea	$3.4	$3.7	- 8
Taiwan	$2.7	$2.9	- 7
Indonesia	$1.2	$0.9	33
Egypt	$1.2	$1.4	-14
Colombia	$1.1	$0.6	83

2007 forecasts are from “Outlook for U.S. Agricultural Trade”, Mar 1, 2007

$95 Billion By 2016, Up $26 Billion From 2006



Source: USDA Agricultural Projections to 2016, February 2007

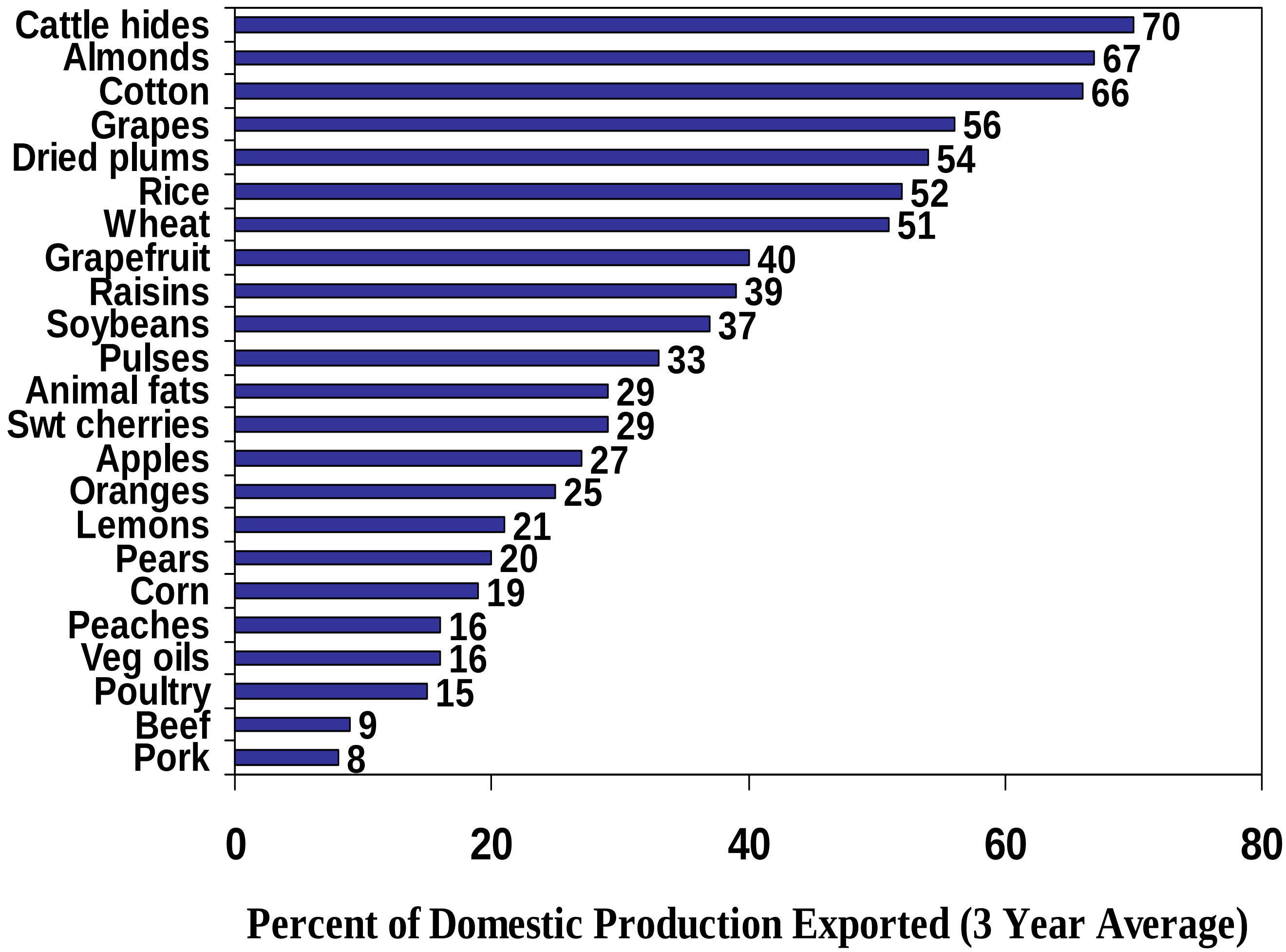
Importance of Trade for U.S. Agriculture Expected to Continue Over the Next Decade

- Exports have historically been a major growth driver of U.S. agriculture. 20-25 percent of U.S. production is exported –much higher for some products
- Over the next decade, trade will share that stage with booming domestic biofuels production
- The result of these two strong drivers of demand growth -- rising farm prices, export value, cash receipts, farm income, and farm equity while government farm payments ease

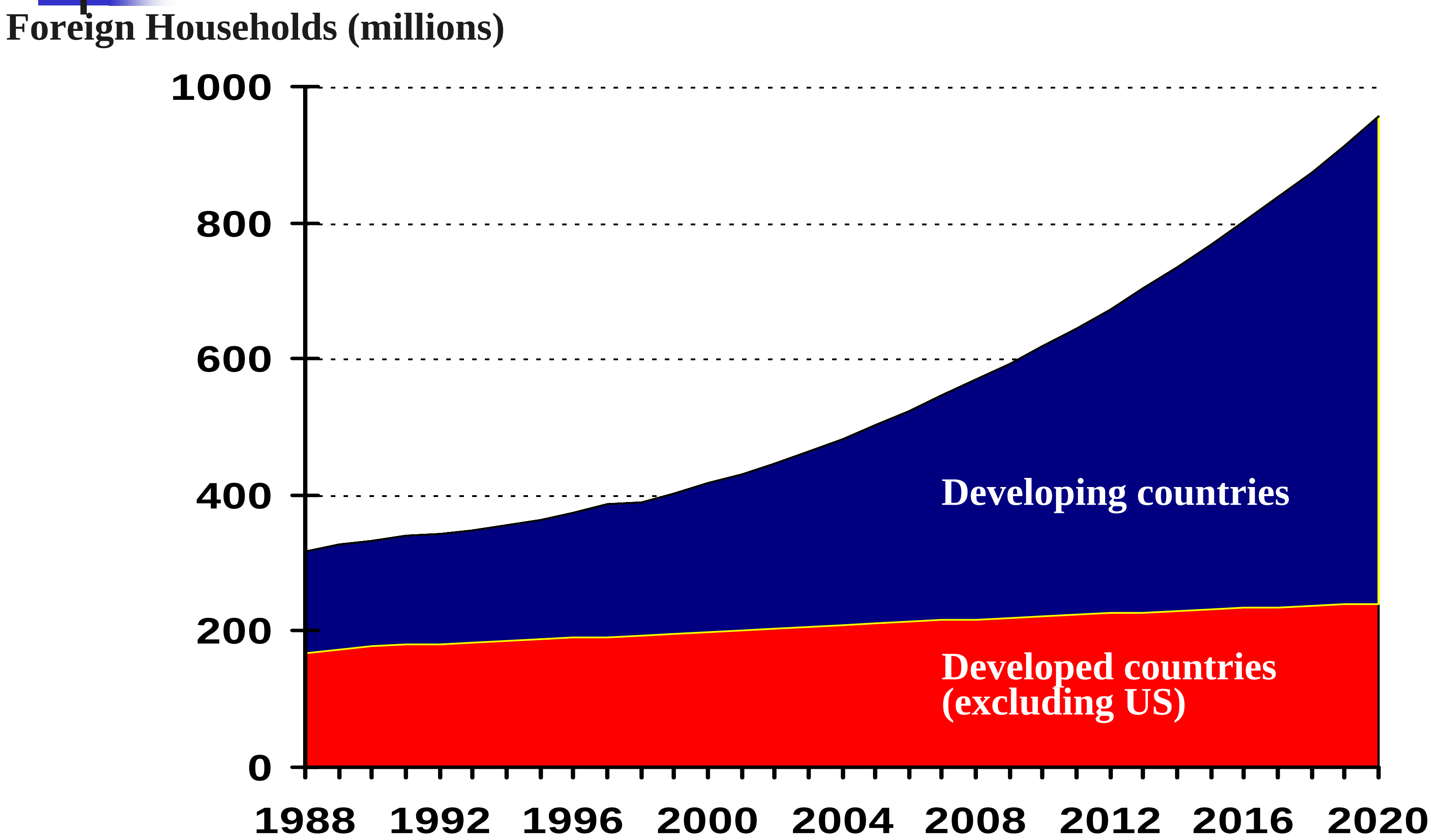
Ethanol Impacts

- Corn acreage will grow at expense of soybeans and cotton as rapid expansion in ethanol production increases corn demand, prices, and producer returns
- U.S. corn exports are projected to fall over the next several years as more corn is used domestically in the production of ethanol before returning to current levels
- U.S. share of world corn trade (60-70 percent) will decline to 55-60 percent
- U.S. soybean exports will fall as acreage is shifted to corn to support ethanol production and competition from Brazil strengthens

Exports Contribute Substantially to Cash Receipts



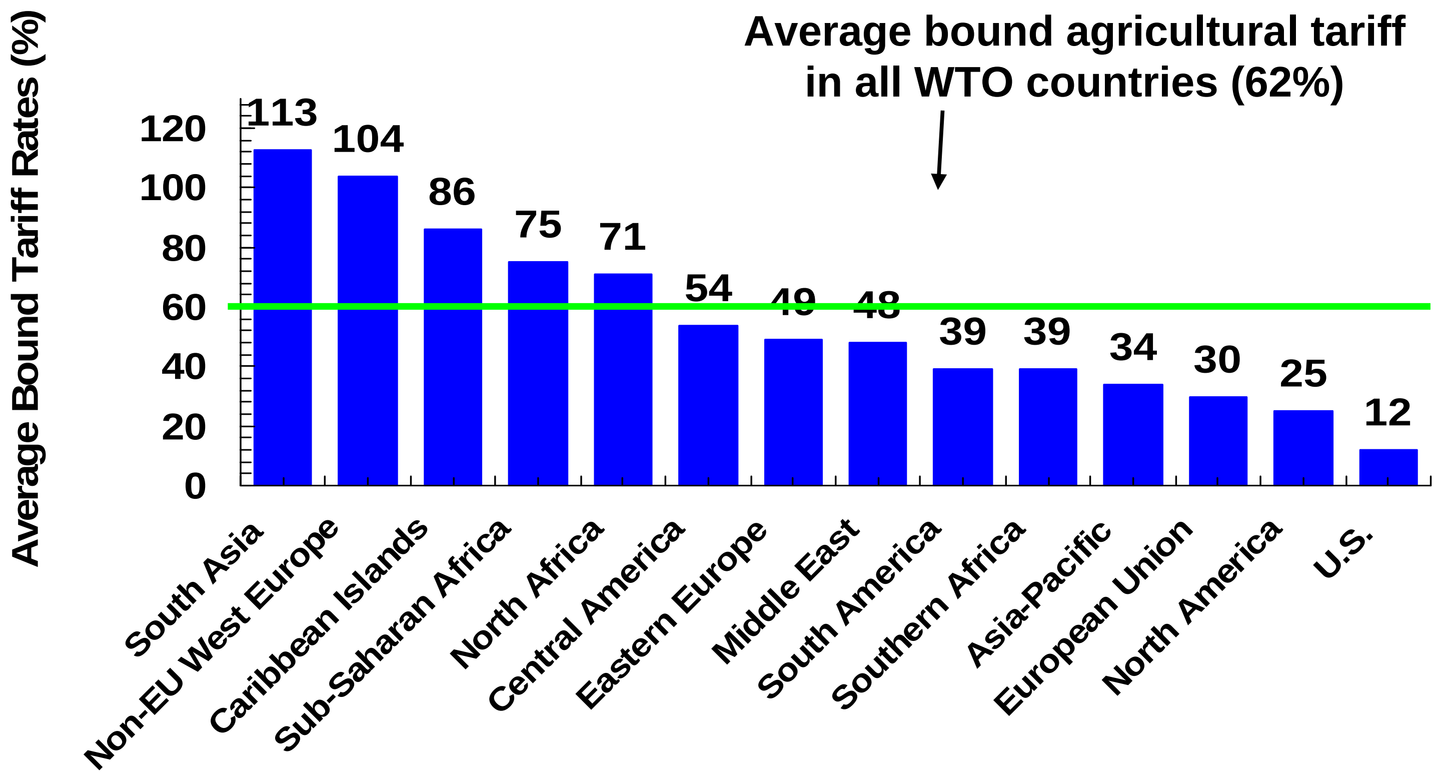
Middle Class Outside the U.S. Expected to Double By 2020



The Trade Agenda: WTO

- <u>July 2006 G-6 Ministerial</u>
  - Talks suspended
- <u>August – December 2006</u>
  - "Quiet discussions"
  - Drilling down below "headline" numbers to explore specific sensitivities and priorities
- <u>January/February 2007</u>
  - Endorsement of "bottom up" approach at Davos ministerial
  - Intensification of informal bilateral engagement with key partners
  - Geneva "fireside" chats

The Trade Agenda: WTO



Doha Round Trade Negotiations

- What we need for success:
  - Substantial new trade flows
  - Market access in both developing and developed countries
  - Clarity on special product discipline
    - Robust treatment (TRQ / tariff cut)

The Trade Agenda: WTO

- Brazil Cotton Case
  - WTO panel reviewing if U.S. actions on cotton complied with previous Dispute Settlement Body rulings
  - Panel meeting Feb. 27-28
  - Final report June 2007

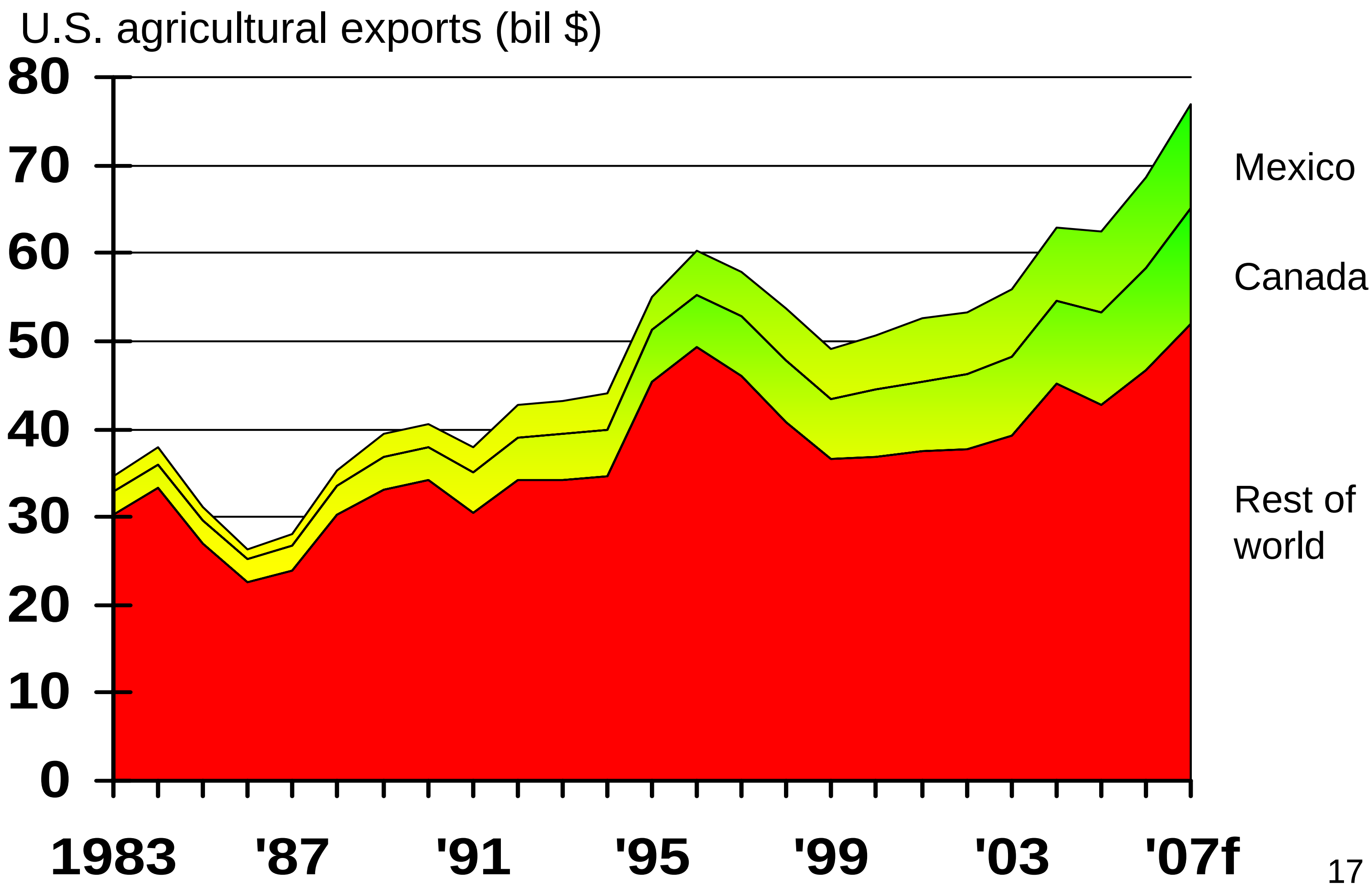
The Trade Agenda: WTO

- Canadian Corn
  - Allegations
    - Serious prejudice
    - WTO export commitments (export credits)
    - WTO domestic support commitments
  - Consultations held Feb. 7
  - Canada plus 8

The Trade Agenda: FTAs

- NAFTA
- CAFTA
- Colombia, Peru, Panama
- Korea, Malaysia

NAFTA Accounts For Much Of The Growth In U.S. Exports Over Past Decade



The Trade Agenda: DR-CAFTA

- El Salvador (3/1), Honduras (4/1), Nicaragua (4/1), and Guatemala (7/1) implemented agreement in 2006
- Exports to the DR-CAFTA region ($2.24 billion in 2006) are expanding at pace above average rate for rest of world
- Expect agreement with Dominican Republic to be implemented very soon
- Costa Rican President pressing for ratification
- Tariffs on many products eliminated immediately
  - Rest phased out within 5 to 15 years
  - Completely eliminated on all products in 20 years
- Cooperation on plant and animal health safety
- Benefits for feed grains, wheat, rice, soybeans, cotton, poultry, pork, dairy, fruits, vegetables and processed foods

The Trade Agenda: FTAs

- Recently concluded: Colombia, Peru, Panama
  - Provide duty-free access for over half of U.S. agricultural trade immediately
  - Eliminate price band systems in Colombia and Peru
  - Recognize equivalence of U.S. meat inspection system

The Trade Agenda: FTAs

- Korea
  - 6th largest U.S. export market - $3.4 billion 2007
  - Average ag bound tariff currently over 50 percent
  - Opportunities for horticulture, beef, pork, poultry, corn, soybeans, wheat and processed foods
  - End of March conclusion
- Malaysia
  - 3rd largest export market in SE Asia region
  - Next round has not been scheduled
  - Outcome of March 2 Malaysian Cabinet meeting critical to decision on how to move forward

Trade Promotion Authority

- Expires June 30, 2007
- Extension needed to successfully complete the Doha Development Round
- TPA enables U.S. to maintain its global leadership position
- Under TPA, U.S. has opened markets with free trade agreements

SPS Issues

Keeping Markets Open – Challenges

- “Market maintenance” or “trade troubleshooting” has growing role
- Sanitary and phytosanitary issues grow in importance
- Adoption of science-based international standards critical
- Markets close when outbreaks occur (BSE, AI)– require lengthy technical and diplomatic discussions to reopen

2007 Farm Bill and Trade

- Create a trade environment where science-based standards are the norm
  - Establish new $20-million grant program
  - Increase TASC funding
  - Enhance U.S. presence within international standard-setting bodies

International Agricultural Trade Outlook

- Export outlook positive
- FTAs offer tremendous opportunities for U.S. agriculture
- WTO Doha negotiations must achieve increased trade flows
- SPS obstacles to predictable trade
- Future farm policy can enhance our trade prospects

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