



**TESTIMONY OF ROGER JOHNSON
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SUBMITTED TO THE U.S. INTERNATIONAL TRADE COMMISSION

**REGARDING THE TRANS-PACIFIC PARTNERSHIP AGREEMENT: LIKELY IMPACT ON THE U.S. ECONOMY
AND ON SPECIFIC INDUSTRY SECTORS**

INVESTIGATION NO. TPA-105-001

**JANUARY 13, 2016
WASHINGTON, DC**

Introduction

On behalf of the family farmer, rancher, and rural members of National Farmers Union (NFU), thank you for the opportunity to submit testimony regarding the Trans-Pacific Partnership (TPP) and its potential impacts on family farmers and their communities.

NFU was organized in 1902 with the mission of improving the well-being and economic opportunity for family farmers, ranchers, and rural communities through grassroots-driven advocacy. As a general farm organization, NFU represents agricultural producers across the country and in all segments of family agriculture.

NFU, as directed by its policy adopted by delegates at its annual convention, advocates for fair trade. NFU recognizes that international trade is an important part of successful family farming in the U.S., but increasing trade is not an end unto itself. NFU policy states, "Every future trade agreement must address differences in labor standards, environmental standards, health standards, and the trade-distorting effect of currency manipulation and cartelization of agriculture markets."¹

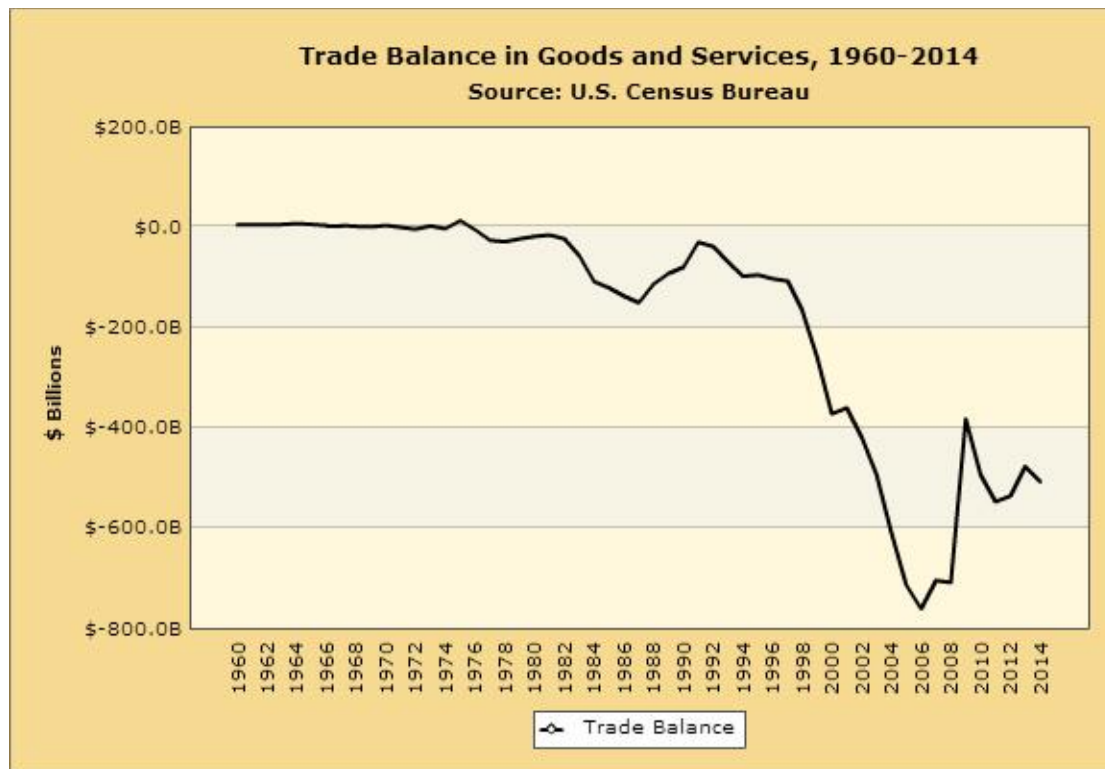
Balancing trade

The U.S. trade deficit totaled over \$508 billion in 2014, a six percent increase from 2013.² It represents roughly three percent of the U.S. Gross Domestic Product (GDP). The trade deficit causes a significant drag on the growth of the entire economy. For more than 40 years, the U.S. has had a trade deficit that, on average, continues to grow (Figure 1). With a strengthening U.S. dollar, the deficit is likely to grow in 2015, as a strong U.S. dollar will encourage imports and reduce exports. The massive overall trade deficit exists despite the U.S. having free trade agreements with 20 countries, including half of the countries in the TPP. Because of the significant impact the trade deficit has on the U.S. economy, all trade agreements, such as TPP, must have the explicit objective of balancing trade.

¹ Nat'l Farmers Union, 2015 Policy of the National Farmers Union (2015) available at <http://www.nfu.org/nfu-2015-policy/2066>.

² "Foreign Trade." U.S. International Trade in Goods and Services (FT900). U.S. Census Bureau. Web. 12 Jan. 2016.

Figure 1



For years, trade agreements have received praise for their ability to open markets to U.S. agricultural exports. Relative to the entire economy, agriculture has fared relatively well in trade. Agriculture, however, is an exception among other sectors of the economy. Since 1960, U.S. agricultural exports have been larger than agricultural imports, creating a surplus in agricultural trade.³ This surplus is important for the overall economy because it helps offset the massive overall trade deficit. But it is insignificant relative to other segments of the economy (Figure 2).⁴ In addition, the agriculture surplus has recently decreased.⁵ Figure 3 graphs all U.S. domestic agricultural exports to the world and all U.S. imports for consumption from the world.⁶ While exports have sloped upwards for years, imports have also steadily increased. Figure 4 depicts this balance of agricultural trade by value.⁷ With the exception of 2005 and 2006, the U.S. has had a strong agricultural trade balance in recent years.

Another way of measuring the impacts of trade agreements is examining the domestic exports as a percent of imports for consumption (See Figure 5: where any number less than 100 percent indicates a negative trade balance). Over time, if the percentage decreases, it indicates that the trading partners' exports into the U.S. are increasing at a faster rate than the U.S. exports to other parties. While the U.S.

³ "U.S. Agricultural Trade." USDA Economic Research Service. 28 Sept. 2015. Web. 13 Jan. 2016.

⁴ "U.S. Agricultural Trade." USDA Economic Research Service. 28 Sept. 2015. Web. 13 Jan. 2016.

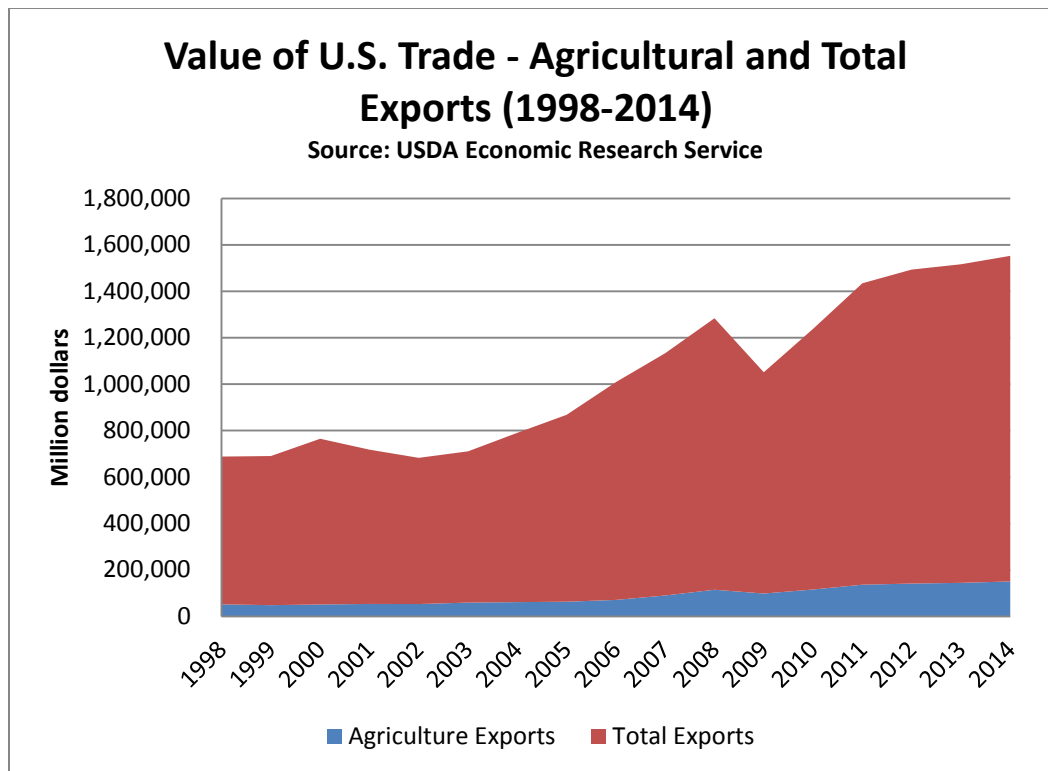
⁵ "Outlook for U.S. Agricultural Trade." USDA Economic Research Service. 1 Dec. 2015. Web. 13 Jan. 2016.

⁶ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

⁷ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

trade balance for all agriculture (including manufactured food and kindred products, beverages and tobacco products) is positive, it has decreased from 144.9% in 1997 to 116.5% in 2014 (Figure 5).⁸

Figure 2



⁸ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

Figure 3

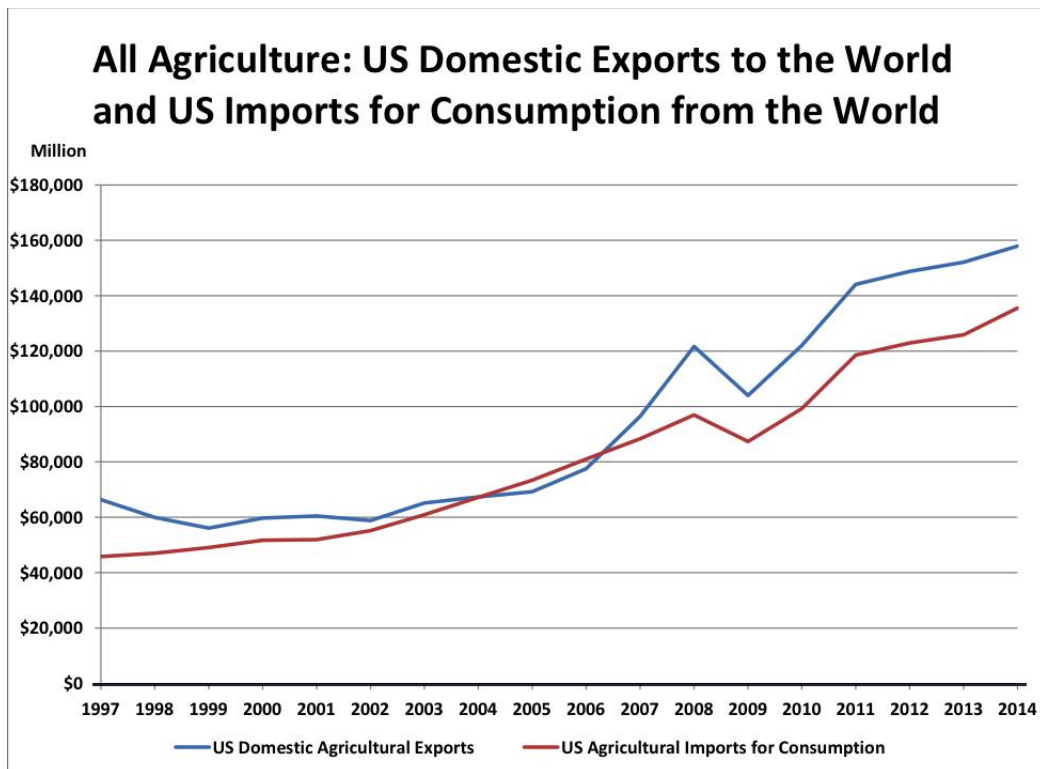
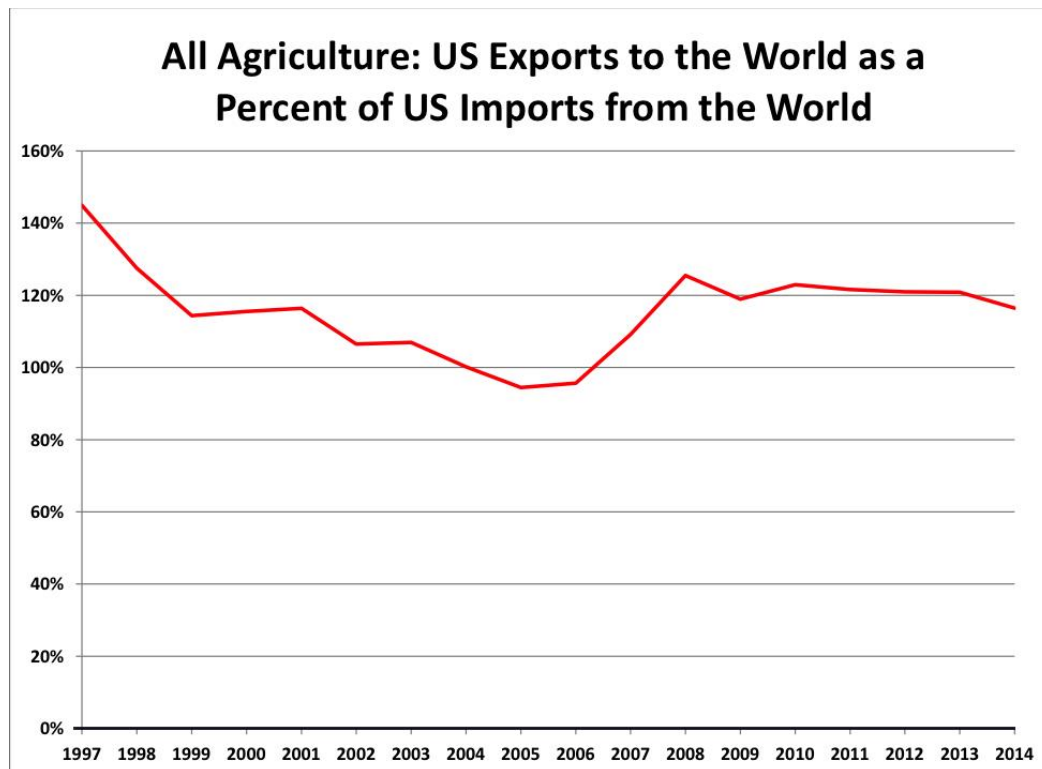


Figure 4



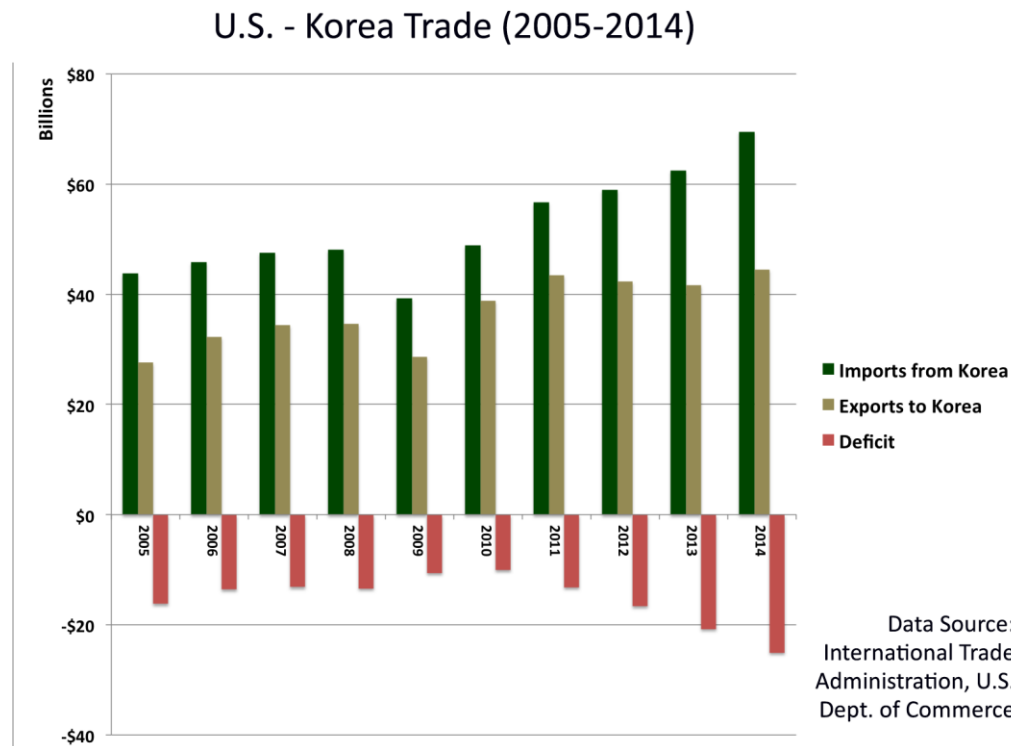
Figure 5



For example, agriculture trade with Korea has been positive and is growing on average. Unfortunately, relative to the overall economic trade with Korea, agriculture represents a small portion of trade and the deficit with Korea continues to grow. The U.S. entered into a free trade agreement with Korea and since implementation in 2011, the overall trade deficit has grown (Figure 6).⁹ Figures 13, 14 and 15 depicting the agricultural trade data, which offsets some of the overall trade deficit for Korea, are included on pages 13 and 14.

⁹ "Data & Analysis." International Trade Administration Data & Analysis. Department of Commerce. Web. 13 Jan. 2016.

Figure 6



Relative to TPP, the most optimistic estimates for the impact on U.S. GDP are 0.4% growth by 2030.¹⁰ Some estimates predict negative growth effects in the U.S. as a result of TPP.¹¹ A possibility of negative GDP growth raises the question of why the U.S. would pursue this agreement at all. Even a growth rate of 0.4% is unacceptable when the trade deficit currently sits at three percent of GDP and is likely to grow with implementation of TPP.

Currency manipulation

One of the major contributing factors to the massive trade deficit is currency manipulation. Currency manipulation occurs when other countries deliberately lower the value of their currencies relative to the U.S. dollar to gain an unfair advantage. This effectively acts as a subsidy on that country's exports and a tax on U.S. exports to that country. Currency manipulation remains a top concern of NFU, particularly in the context of TPP. Members of the TPP negotiations are well known currency manipulators, including Malaysia, Singapore, and Japan.¹² Last summer, as a direct result of China's devaluation of currency,

¹⁰ World Bank. "Potential Macroeconomic Implications of the Trans-Pacific Partnership." Global Economic Prospects. World Bank, 2016. Web. 13 Jan. 2016.

¹¹ Capaldo, Jeronim, and Alex Izurieta. Trading Down: Unemployment, Inequality, and Other Risks of the Trans-Pacific Partnership Agreement. Global Development and Environment Institute, Tufts University, 18 Nov. 2015. Web. 8 Jan. 2016

¹² Economic Policy Institute. Currency Manipulation and the 896,600 U.S. Jobs Lost Due to the U.S.-Japan Trade Deficit (2015) available at <http://www.epi.org/publication/currency-manipulation-and-the-896600-u-s-jobs-lost-due-to-the-u-s-japan-trade-deficit/>

Vietnam (the TPP nation poised to gain the most from the TPP agreement¹³) devalued the dong by 1.2 percent.¹⁴

Japan, the second largest TPP economy, is an identified currency manipulator. In a report by the Economic Policy Institute (EPI) evaluating the impact of trade with Japan, EPI found that 896,600 U.S. jobs have been lost due to the U.S.–Japan trade deficit.¹⁵ Currency manipulation is the single most significant cause of the trade deficit with Japan, which totaled \$78.3 billion in 2013 for goods.¹⁶

The issue of currency manipulation is not exclusive to countries with which the U.S. does not have trade agreements. In fact, the latest free trade agreement the U.S. entered into with South Korea suffers the same issues with currency manipulation as Japan. Last year, the U.S. Treasury Department issued its semiannual report on international economic and exchange rate policies. In its report, its harshest criticism of currency manipulation was reserved for South Korea. The report stated, “Korean authorities appear to intervene on both sides of the market but, on net, they have intervened more aggressively to resist won appreciation.”¹⁷ The U.S. entered into a free trade agreement with Korea in March of 2012.

The U.S.-Korea Free Trade Agreement (KORUS) used essentially the same architecture as previous trade agreements and failed to include provisions to address currency manipulation. South Korea has been, and continues to be, one of the world’s major currency manipulators.

The U.S. did not secure enforceable mechanisms against currency manipulation in the TPP. The Joint Declaration of the Macroeconomic Policy Authorities of Trans-Pacific Partnership Countries (the TPP side agreement on currency) contains no dispute settlement mechanisms and provides no new consequences or disincentives to countries relative to currency manipulation. Japan’s Finance Minister has even stated that the TPP deal won’t have binding power on Japan’s currency policy.¹⁸

Currency manipulation has the capacity to eliminate any gains in tariff reductions that are made in free trade agreements. Without measures to enforce restrictions on currency manipulation, free trade agreements will continue to fail to live up to the promises made by their supporters.

Trade and Agriculture History

1. The North American Free Trade Agreement (NAFTA)

Like TPP, the North American Free Trade Agreement (NAFTA) came with promises of great agricultural export opportunities for U.S. farmers. It has remained the case; however, that the U.S. imports more

¹³ Boudreau, J. (2015, October 18). The Biggest Winner From TPP Trade Deal May Be Vietnam. Retrieved January 11, 2016, from <http://www.bloomberg.com/news/articles/2015-10-08/more-shoes-and-shrimp-less-china-reliance-for-vietnam-in-tpp>

¹⁴ Uyen, N. (2015, August 18). Vietnam Devalues Dong for Third Time in 2015 on Yuan Fallout. Retrieved January 11, 2016, from <http://www.bloomberg.com/news/articles/2015-08-19/vietnam-s-central-bank-devalues-dong-for-third-time-this-year>

¹⁵ Economic Policy Institute.

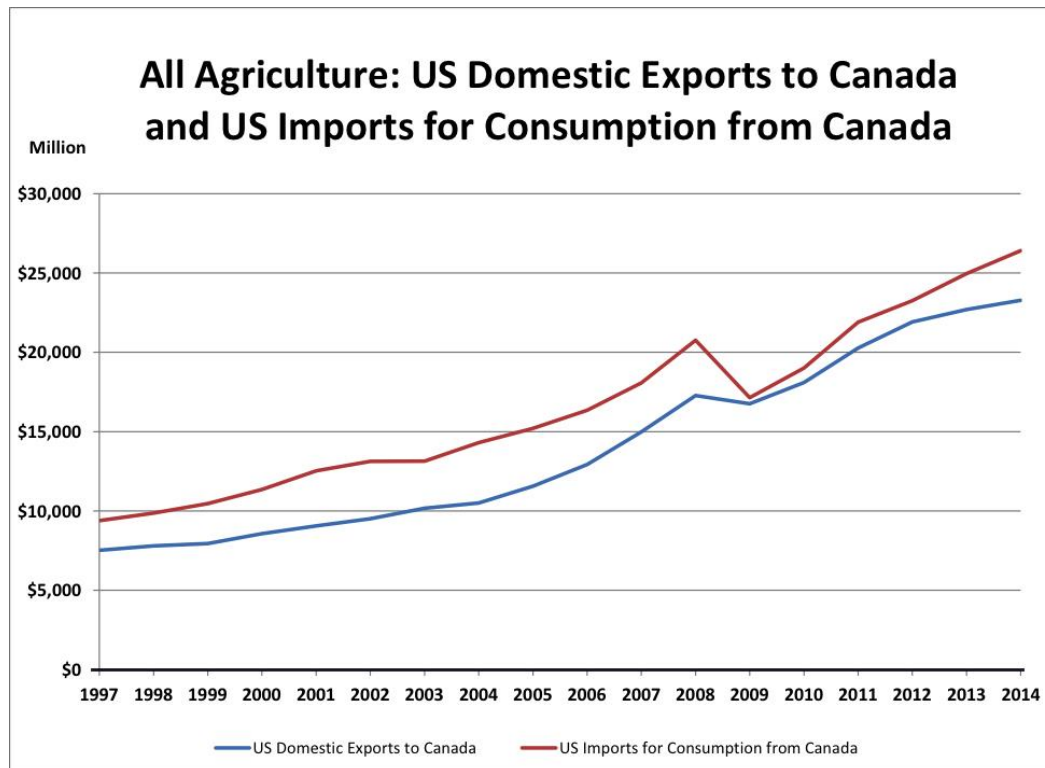
¹⁶ Economic Policy Institute.

¹⁷ U.S. Department of the Treasury, Report to Congress on International Economic and Exchange Rate Policies (2015) available at http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/2014-4-15_FX%20REPORT%20FINAL.pdf

¹⁸ Kajimoto, Tetsushi. "Finance Minister Aso: TPP Deal Won't Have Binding Power on Japan's Forex Policy." Reuters. Thomson Reuters, 05 Nov. 2015. Web. 08 Jan. 2016.

agricultural goods from Canada than it exports to Canada (Figure 7).¹⁹ The balance of agricultural trade with Canada has remained negative from 1997 to 2014 (Figure 8).²⁰ The cumulative trade deficit for trade with Canada for all of agriculture, including manufactured food and kindred products and beverages and tobacco products, between 1997 and 2014 was \$46.4 billion.²¹ When expressed as a percentage of exports to imports, with the exception of the Great Recession, the percentage has hovered around 80% (Figure 9).²²

Figure 7



¹⁹ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

²⁰ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

²¹ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

²² Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

Figure 8

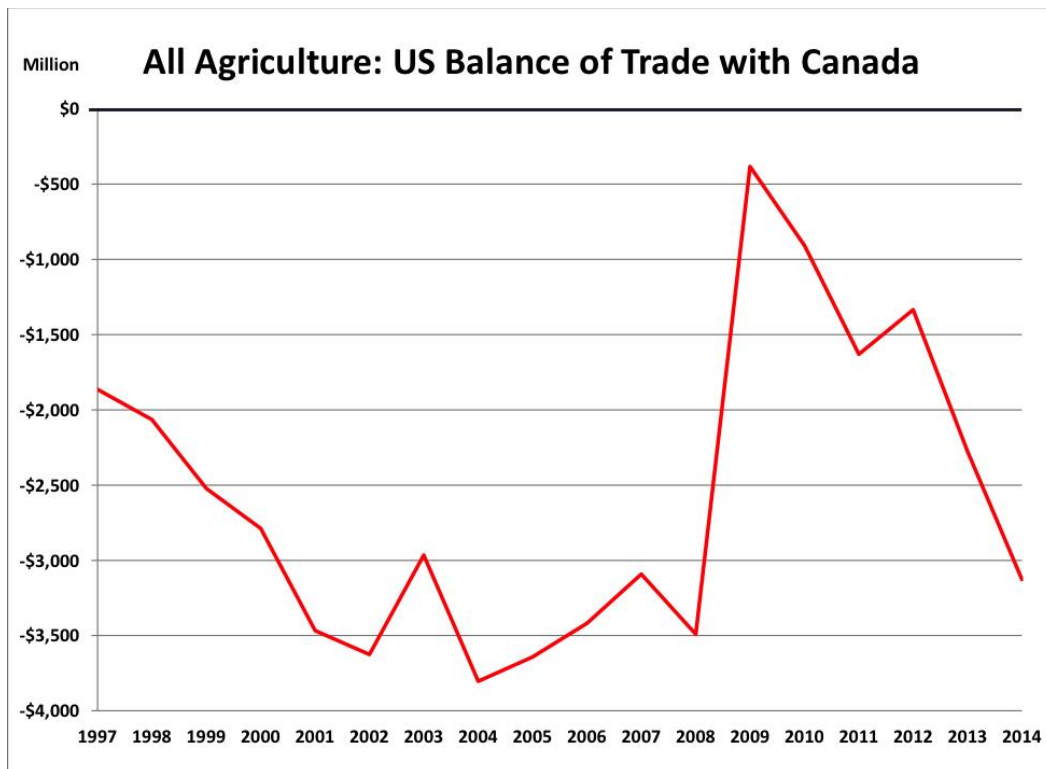
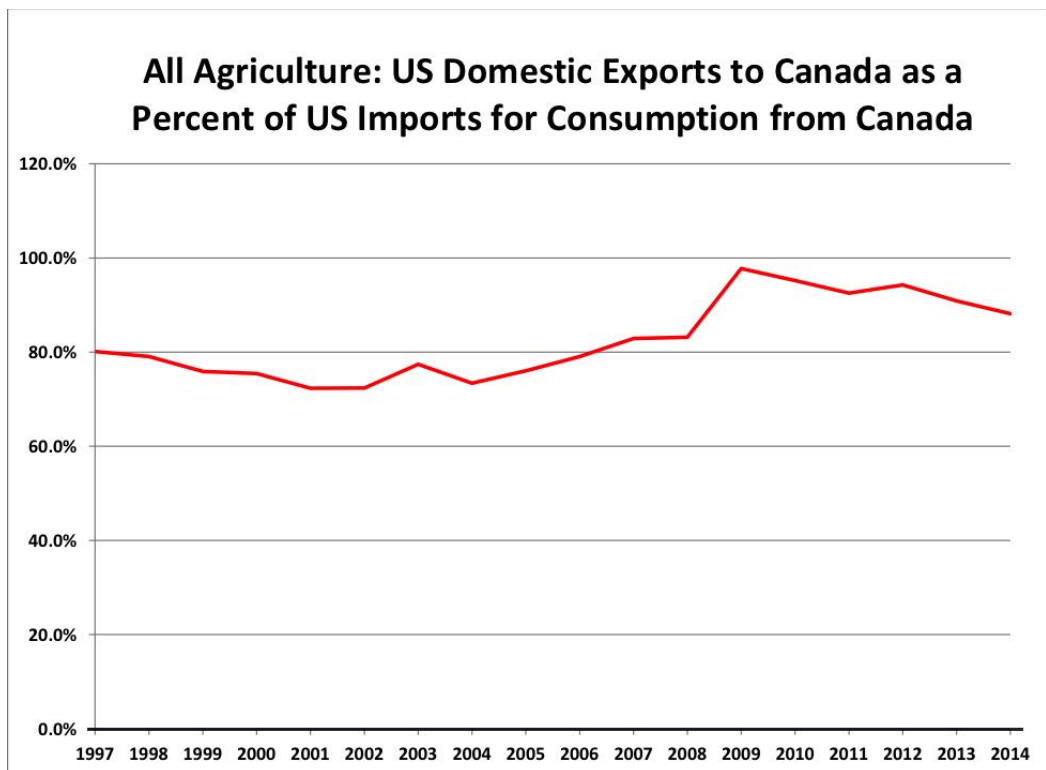
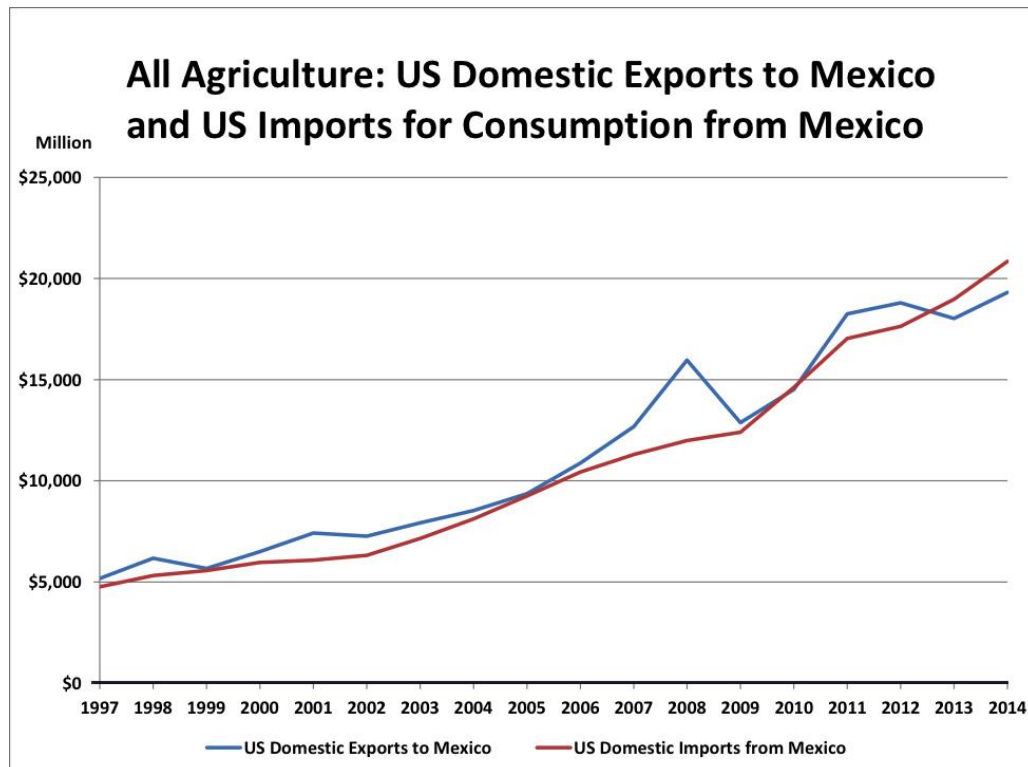


Figure 9



In the post-NAFTA period of 1997 to 2014, U.S. agriculture exports to Mexico have grown, albeit somewhat erratically (Figure 10).²³ U.S. agriculture imports from Mexico have also grown at a steady and increasing pace. In 2013, the U.S. imported more agricultural goods from Mexico than we exported to Mexico. Agriculture exports as a percent of imports have wavered around 100 percent since 1997 with the exception of the most recent years when the percentage has dropped below 100 (Figure 11).²⁴ The U.S. balance of trade by value with Mexico fluctuates between near zero and \$1 billion for the non-Great Recession years (Figure 12).

Figure 10



²³ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

²⁴ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

Figure 11

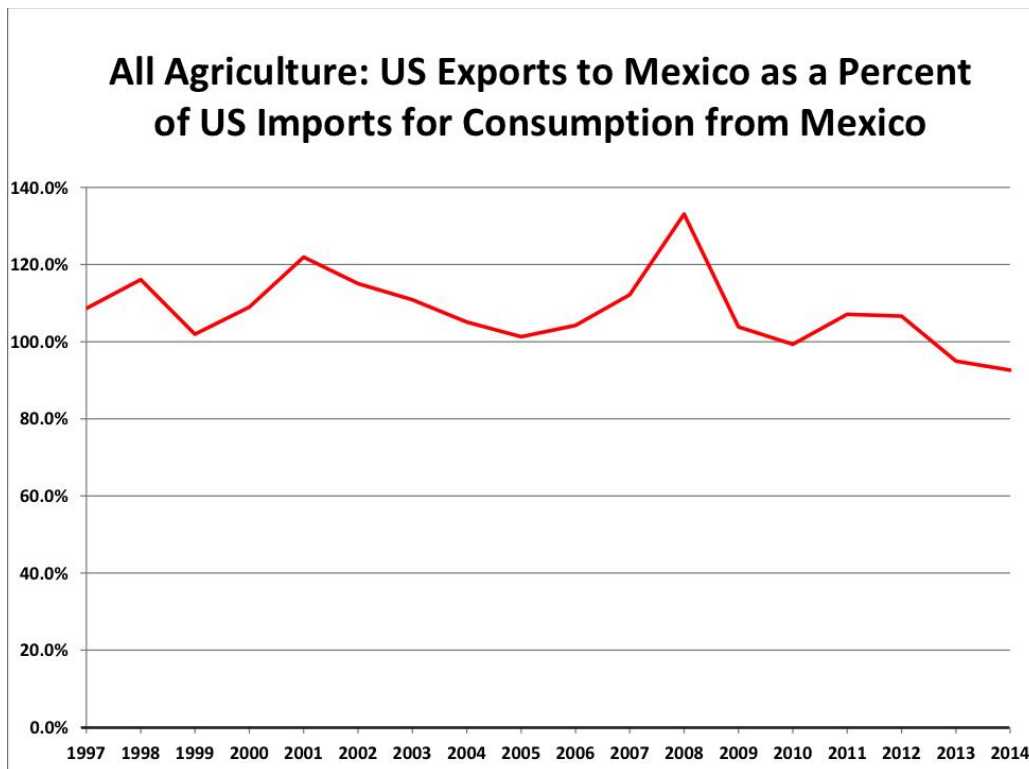
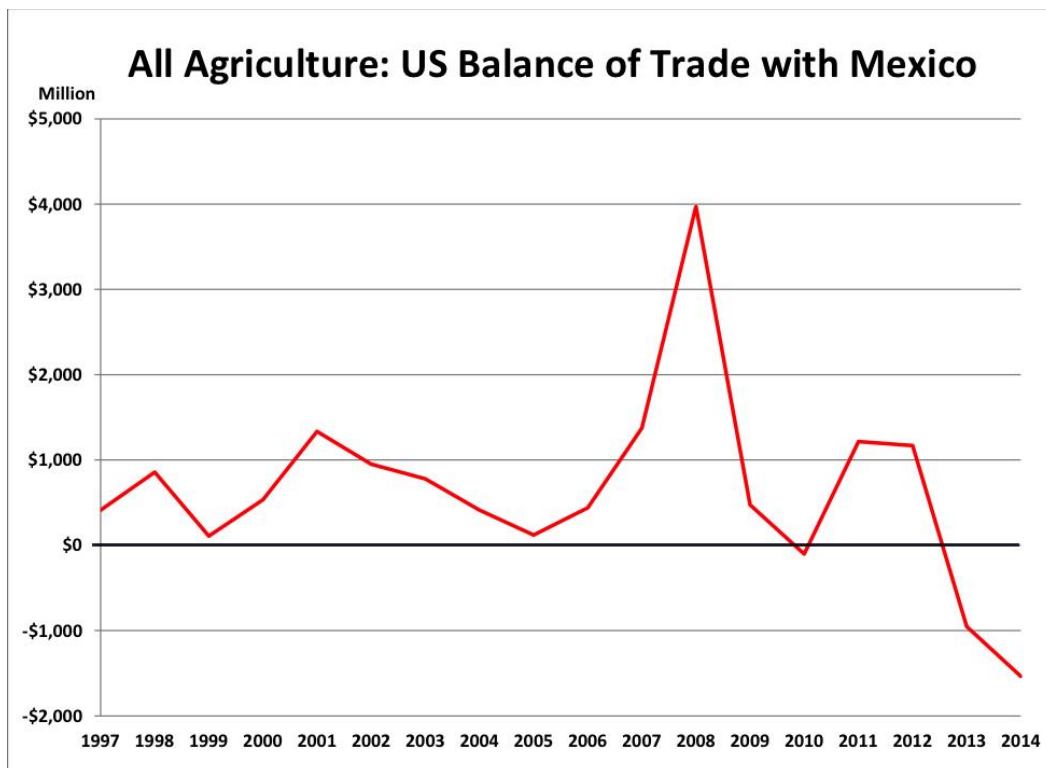


Figure 12

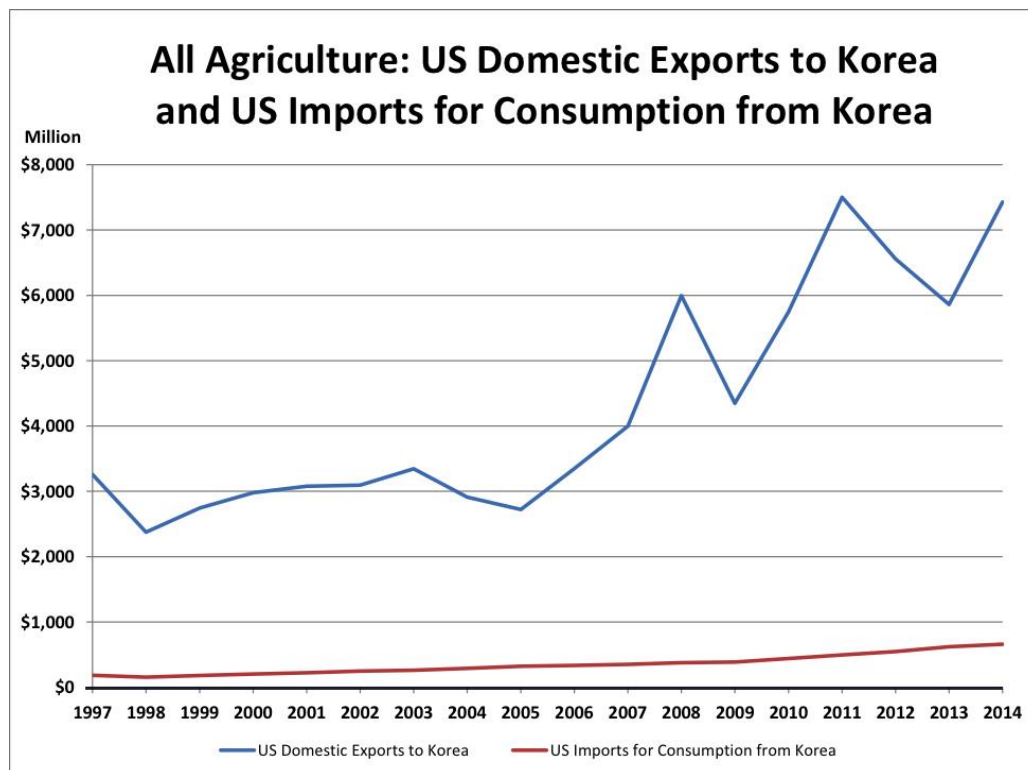


The agriculture trade data from Canada and Mexico after NAFTA implementation depicts no major boon to U.S. agriculture as was promised. The agricultural trade surplus would need to be much greater to offset the overall goods trade deficit with Mexico.

2. The Korea Free Trade Agreement (KORUS)

While the U.S. trade deficit with Korea has continued to grow after implementation of KORUS, agricultural exports have trended upwards to Korea (Figure 13).²⁵ The U.S. agriculture trade balance with Korea has remained positive since 1997 and continues to grow (Figure 14).²⁶ U.S. exports as a percent of imports of agricultural goods have decreased from nearly 1800 percent to roughly 1075 percent (Figure 15).²⁷ The percentage is still very high, and good for the agriculture sector, but a decrease of more than 700 percent over 17 years depicts a decline of relative agricultural trade to Korea.

Figure 13



²⁵ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

²⁶ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

²⁷ Schaffer, Harwood. "Unpublished Analysis of USITC Data." Agricultural Policy Analysis Center, 2016.

Figure 14

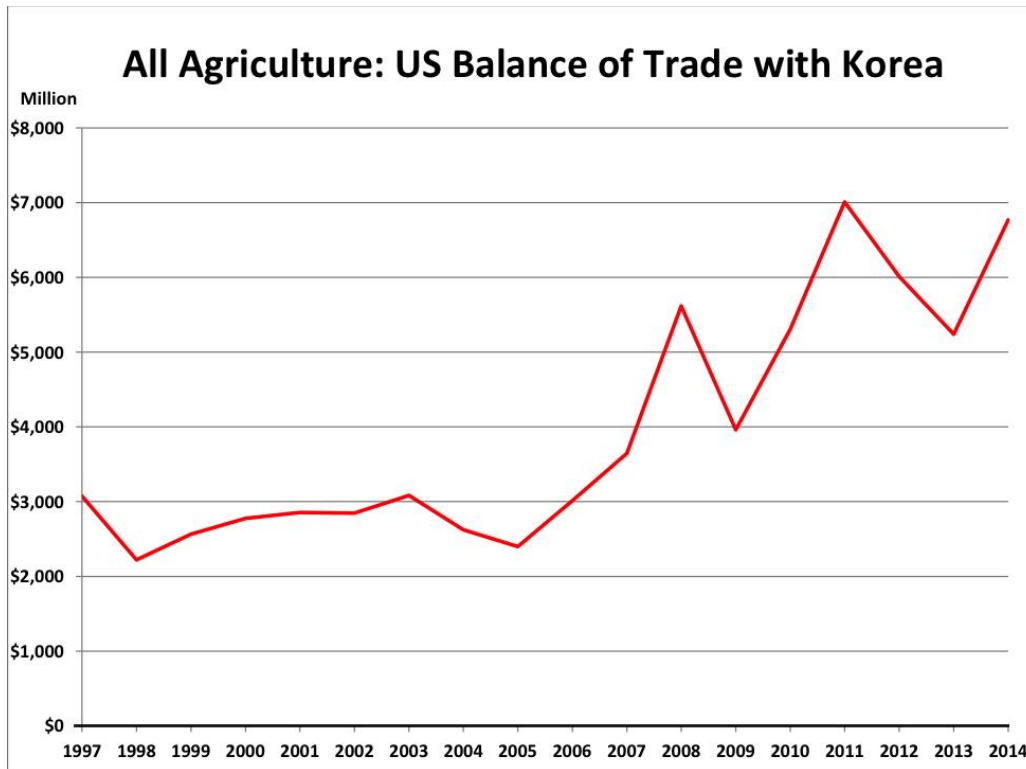
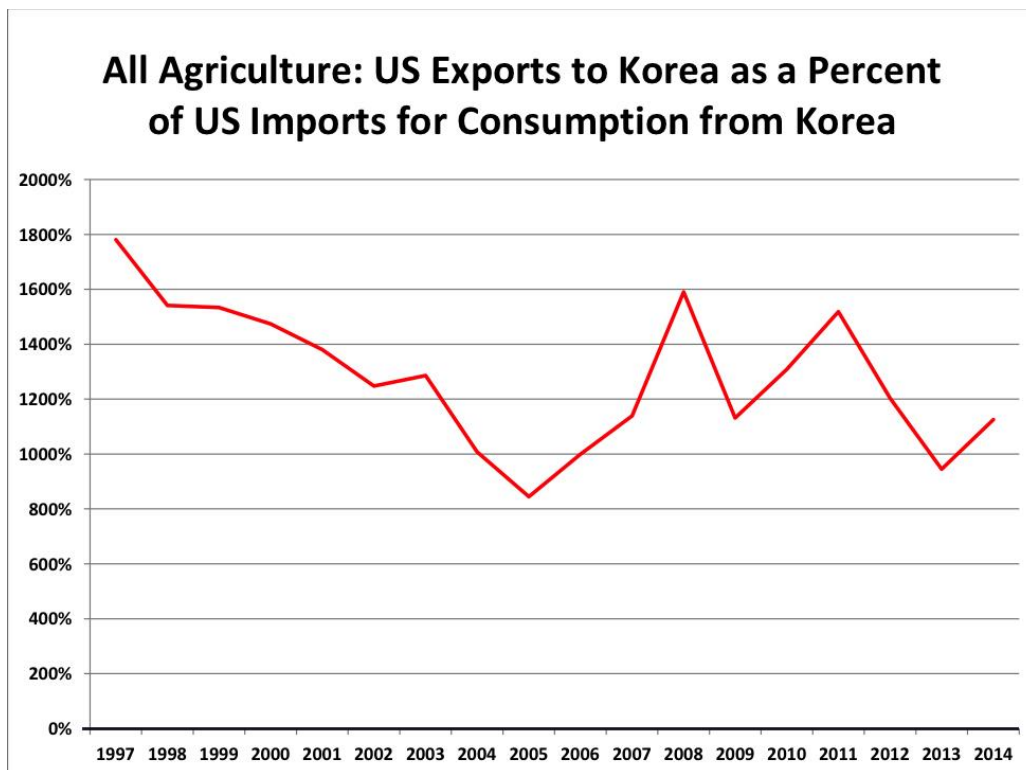


Figure 15



Beef in TPP

One sector within agriculture that deserves focused attention prior to agreeing to TPP is the beef sector. Like most commodities, beef prices are declining significantly as the largest U.S. cattle herd expansion in U.S. history was underway (Figure 16).²⁸ Forecasts predict prices will continue to decline. While TPP will allow for an increase in beef trade to Japan, the overall agreement will more than likely result in increased U.S. beef imports, which will put additional downward pressure on U.S. cattle prices. The U.S. already has a persistent beef trade deficit with the countries in the TPP agreement.²⁹ In 2014, the U.S. imported 2.0 billion pounds of beef from TPP countries and exported 1.3 billion pounds to TPP countries.³⁰ These net imports directly compete with U.S. producers. Greater market access has the possibility of increasing demand and raising prices, but not if the U.S. also gives greater market access and increases imports of beef.

Figure 16



Conclusion

NFU's policy book states, "The measure of the success of a trade agreement has to be its benefit to U.S. agriculture and specifically of its producers' net income. Vague promises of market access do not offset opening our border for even larger amounts of foreign-produced goods to enter our markets. Market access does not equal market share."

²⁸ "New Frontier Capital Markets." 5 Area Cash Price Weekly Price. 11 Jan. 2016..

²⁹ Data & Analysis. (n.d.). Retrieved January 13, 2016, from <http://www.fas.usda.gov/data>

³⁰ Data & Analysis. (n.d.). Retrieved January 13, 2016, from <http://www.fas.usda.gov/data>

Of the top seven purchasers of U.S. agricultural exports, three already have a free trade agreement with the U.S. (Canada, Mexico, South Korea) and three are not involved in the Trans-Pacific Partnership (China, Hong Kong, Taiwan). The remaining country is Japan which is expected to experience only 2.7% of extra economic growth for all sectors by 2030 as a result of TPP, according to the World Bank.³¹ The TPP-related tariff reductions and additional market access that Japan has given to the U.S. is a positive step for U.S. agricultural exporters, but must be measured in the context of the entire multilateral agreement. U.S. agricultural exporters will have to compete in the Japanese market against agricultural goods from the other TPP countries including major agricultural exporters like Canada, Australia, New Zealand, and increasingly Mexico, while simultaneously giving greater market access to all of the TPP partner countries.

The U.S. Department of Agriculture (USDA) states, "New trade agreements create opportunities to increase international sales by stripping away trade barriers, eliminating tariffs, opening markets, and promoting investment and economic growth."³² While certainly eliminating tariffs and opening markets is positive for agricultural exports, it is also important to examine the overall impacts on family farmers. While modest increases in agriculture export opportunities may occur with trade agreements, they can be severely overshadowed by the resulting massive increases of imports in agriculture.

TPP contains no enforceable measures to address the persistently increasing U.S. trade deficit or currency manipulation and will likely lead to the same negative overall outcomes of previous trade agreements. Its impact on agriculture and rural communities will perpetuate the same trends that have characterized the past 20 years of free trade agreements: greater consolidation; erosion of mid-sized farms; increased volatility in farm incomes; and depopulation of rural America.

The U.S. can write the rules for trade. We can do better. We must do better because these deep trade deficits are crippling America. Thank you for the opportunity to testify.

³¹ World Bank. "Potential Macroeconomic Implications of the Trans-Pacific Partnership." Global Economic Prospects. World Bank, 2016. Web. 13 Jan. 2016.

³² "U.S. Agriculture Benefits from Trade Agreements." Foreign Agriculture Service (n.d.): n. pag. U.S. Department of Agriculture, Apr. 2015. Web. 8 Jan. 2016.