Statement of Neal Fisher
Administrator of the North Dakota Wheat Commission
before the
Senate Committee on Commerce, Science and Transportation
Subcommittee on Consumer Affairs, Foreign Commerce and Tourism
April 19, 2002

Thank you Mr. Chairman and members of the Committee for the opportunity to present this statement today. My name is Neal Fisher, and my family has a farming and ranching operation in Kidder County, North Dakota, where we raise cattle, wheat and other small grains. I am also the Administrator of the North Dakota Wheat Commission, an entirely producer-controlled organization that represents over 19,500 North Dakota wheat producers. The North Dakota Wheat Commission was established in 1959 for the purpose of promoting, aiding and developing the orderly marketing and processing of North Dakota wheat. Today, it works to expand worldwide use of U.S. hard red spring and durum wheat through export market development, domestic promotion, research, trade and public information initiatives. And all too often, we also find it necessary to assist our producer members in defending themselves and their markets from the distortions and injury caused by unfair trading practices of some foreign competitors.

Today's hearing is of great interest to North Dakota farmers. I am proud to acknowledge that the North Dakota Wheat Commission, along with U.S. Wheat Associates, the Wheat Export Trade Education Committee, the National Association of Wheat Growers, and many other state wheat organizations have been at the forefront of every major trade debate facing U.S. agriculture. Our experience, awakened by the Canada-United States Free Trade Agreement and forged in the bilateral disputes with Canada since 1989, dictates that farmers must remain deeply involved in the development and implementation of U.S. trade policy. We see trade and trade negotiations as dynamic elements of U.S. farm policy and ultimately farm income.

The United States and Canada are the world's largest wheat exporters. On average, U.S. production of spring wheat at 506 million bushels annually is nearly double the amount used domestically for food, seed and residual purposes. U.S. production of durum averages just over 110 million bushels annually and has outpaced domestic use in all but one of the last ten years. While Canada is a major wheat producer, its domestic market is relatively small. Thus, with its vast quantity of wheat available for export, it has become the acknowledged price setter for wheat in the international market. This places the Canadian Wheat Board in a unique position to inflict injury on its foreign competitors who cannot discipline the process in a meaningful way by exporting to Canada. And, the Canadian Wheat Board is a government-sanctioned state trading enterprise, or "STE", which has total control over the export of western Canadian wheat. With a small home market, the main impact of the Canadian Wheat Board's marketing practices is felt in the United States and in other third country wheat markets around the world in which the Board is active.

The impact of the Canadian Wheat Board on the average U.S. wheat farmer has been drastically negative. We trace our problems with the Canadian Wheat Board back to the negotiations for the CUSTA which did not adequately address the practices of state-supported monopoly export boards and their impact on U.S. producers. Wheat farmers in North Dakota have been particularly vulnerable to these practices not only because we live along the border with Canada, but also because we produce specialty wheats for the same export markets as does the Canadian Wheat Board. The wheat belt for hard red spring wheat and durum does not recognize the U.S.-Canada border.

Since the implementation of the Canada-United States Free Trade Agreement in 1989 and the North American Free Trade Agreement in 1994, the tensions across the border over wheat trade have worsened. As the world's largest single wheat exporting entity, the Canadian Wheat Board's monopoly actions distort world grain trade and deflate world wheat prices. Aspects of those unfair practices are not just persistent, but actually growing under NAFTA. Canada's unfair trade practices have reduced returns to U.S. producers, and as a result have raised U.S. taxpayer outlays in the form of larger loan deficiency payments and emergency government assistance payments.

I have seen firsthand the injury suffered by United States wheat growers, particularly North Dakota producers, from the unfair trading practices of the Canadian Wheat Board. The impact of the Board's discriminatory pricing and market practices are having a devastating effect on our farming economy.

As the series of charts attached to my statement illustrate, the negative impacts have been lost domestic market share, reduced prices and lost acres. The first chart shows a loss of one-third of the wheat acres in North Dakota since 1996. Low market prices due to the ever increasing influx of

Canadian wheat imports continues to move producers out of wheat production. Unfortunately, it is becoming a self-fulfilling prophecy. Our domestic milling and pasta industries are becoming more dependent on a foreign source for its product needs in hard red spring wheat and durum .

The milling and pasta industries are quick to incorrectly point to alleged inefficiency on the part of U.S. producers or lack of adequate production. However, you can clearly see that supplies of both durum and hard red spring wheat have been more than adequate to cover domestic needs. It is simply because U.S. millers and pasta producers are continually receiving unfairly priced and marketed Canadian Wheat Board wheat and durum. This is not healthy economically for U.S. consumers or U.S. workers, in addition to the loss it is creating across farm enterprises in North Dakota.

The trend in imports of Canadian spring wheat and durum since implementation of the Canada-United States Free Trade Agreement has grown dramatically. A temporary reprieve occurred in the mid-1990s when a successful U.S. Section 22 investigation brought about tariff rate quotas. This tariff rate quota was successful in bringing about true market signals to both U.S. producers and end-users. As some of the later charts indicate, this resulted in a fair market price and increased acres and production which provided end-users with more stable supplies to draw on. Since the elimination of the tariff rate quota however, Canadian wheat and durum imports are once again on a dangerous upward trend. This year, current trends will take us to 18.5 million bushels of durum and 44 million bushels of spring wheat. This would be the second highest level of durum imports ever from Canada and will mean the loss of 25 percent of the U.S. domestic market in durum and 15 to 20 percent in hard red spring wheat.

The impact these recent trends are having on U.S. producers is startling. This year domestic stocks of durum were projected to be drawn down to tight levels of 25 million bushels, compared to more recent years of 50 million bushels. This should have provided stronger market prices as end-users rationalized the tighter supplies. This has not happened however. Instead, cheaper priced Canadian durum imports have kept prices low and reduced market returns for U.S. producers. The result of all this -- U.S. producers may not respond with higher planting intentions this year. The March 2002 U.S. Department of Agriculture producer survey showed acres could fall by 2 percent in the U.S. and 5 percent in North Dakota. As I mentioned earlier, in the past, a normal functioning market should bring about higher prices to entice production when stocks are drawn down. Producers then respond with increased plantings the following year to meet domestic needs. Why is that not happening this year? As

I mentioned earlier, it is becoming a self-fulfilling prophecy. The U.S. end-user will become increasingly dependent on a foreign source for its raw material as Canadian Wheat Board predatory pricing pushes U.S. producers out of production.

To better show the impact on our market, I have with me a stack of Minneapolis Grain Exchange price quotas from last November. Despite more than five months of price quotes, there are minimal quotes for durum. How can there not be an impact on our market? The non-transparent nature of the Canadian Wheat Board in the U.S. market has eliminated all typical market signals. There are two sides to every market, a buyer and a seller. When the buyers do not even need to put forth bids because of the under-the-table offers they are getting from the Canadians, U.S. wheat producers have no way to respond. Instead they see U.S. Department of Agriculture forecasts for tight domestic stocks lead to lower and lower prices. Simply, the non-commercial operations of the Canadian Wheat Board have led to a dysfunctional market.

The Canadian Wheat Board is more than a "farmers' marketing agency." It has been given monopoly authority under federal legislation which allows it to control the marketing and sale of wheat. It boasts on its web site that it's "the only game in town" and has publicly admitted that it has the ability to charge different prices in various export markets as part of its export strategy. It uses this policy of international price discrimination to hurt both the domestic and export sales by U.S. growers. All of these practices were catalogued and confirmed in the Section 301 investigation which resulted in the affirmative finding.

Indeed, the Canadian Wheat Board is the largest such wheat trading entity in the world, controlling annual revenues of some $4.4 billion. Past investigations never vindicated the Board's activities as it claims. Instead they inevitably led to the Section 301 investigation and to this moment of truth. Can U.S. and Canadian wheat farmers continue to co-exist in a market where one country's farmers compete in a free market, while the farmers of the other country hunger for the right and freedom to sell wheat on the open market but are forced to turn it over to a government-sanctioned and financed monopoly marketing board? U.S. wheat producers say no. And significantly, the U.S. Trade Representative has now agreed.

Unfortunately, on February 15th, the Office of the U.S. Trade Representative determined that tariff rate quotas were not an appropriate remedy to deal with the Canadian Wheat Board at this time.

The tariff rate quota was the preferred first choice of our growers and the U.S. wheat industry for several reasons. In particular, it would provide an immediate and much needed remedy; but, also because it would provide leverage against the Canadian Wheat Board which will lead to a negotiated outcome. Instead of the tariff rate quotas, the U.S. Trade Representative has recommended a multi-pronged strategy designed to accomplish our shared goal – the elimination of the CWB.

The position of the North Dakota Wheat Commission and the majority of North Dakota wheat farmers is cautious optimism for the U.S. Trade Representative's plan. We are disappointed that Ambassador Zoellick chose not to impose tariff rate quotas, but we are pleased that our government has finally committed to resolving this ongoing trade dispute.

The North Dakota Wheat Commission applauds our government's "get tough" attitude and we agree and support the need for reform in the next round of WTO negotiations. However, there is one major problem, a solution is at best several years away and many of our farmers will not last that long. Mr. Chairman, time is not on the side of the American wheat farmer. We need immediate relief to offset the ongoing injury inflicted upon us by the CWB and the Government of Canada.

The Canadian Wheat Board has, in the past decade, maintained the facade that its increased exports of wheat to the United States are the direct result of "normal" market forces, and that it does not have the incentive or ability to engage in predatory conduct and market distortion. This line of argument is patently false, and no economic data support it. Even many Canadian wheat growers acknowledge that the Board is not market driven, and have long argued that it should be eradicated or at least subject to market competition. Unfortunately, Canadian farmers have no choice. The Canadian Wheat Board's mandate was originally supply management to the Canadian Government and selling farmers' wheat and barley. However, that mandate has been lost as the Board has increasingly shifted its mission to the self-serving protection of itself and the status quo. In essence, it has become the center of domestic farm policy in Canada. According to one Canadian source, the Canadian Wheat Board is now "dedicated to the cause of single desk selling, pooling and government guarantees. These are its principles - its 'pillars,' as it calls them - and the Canadian Wheat Board will do anything to defend them."

We harbor no illusion that the Canadian Wheat Board or the Canadian Government will alter any of their prior positions on the status and activities of the Board unless the U.S. and the international community demand a change. Although they claim innocence, they have continuously responded by deflecting criticism and making false allegations, and by steadfastly refusing access to relevant information and hard data which would once and for all allow the U.S. government to conduct a full investigation into U.S./Canada wheat trade. If the Canadian Wheat Board truly has nothing of which to be ashamed, then Canada should have no reluctance in releasing information in a confidential manner. Failure of one of our major trading partners to respond to legitimate questions after tens years of repeatedly asking, should be unacceptable to the U.S. trade officials.

The injury to U.S. farmers is significant and longstanding. The loss to the Canadian Wheat Board of exports to third-country markets detailed in the Section 301 investigation is a large problem - the ebb and flow of competition losses in some markets is frequently not made up by gains in others and U.S. producers see their stocks rise due to unfair Canadian Wheat Board activities which limit the ability to increase U.S. exports in large crop years. In addition, the substantial costs of bringing the necessary trade actions to respond to the Canadian Wheat Board’s unfair practices are imposing great costs on farmer organizations like the North Dakota Wheat Commission that could otherwise be fully devoted to growing the market and supporting trade enhancement measures like the Free Trade Area of the Americas.

After ten years of grappling with this issue, we need your help and support. Ambassador Zoellick needs to hear your voice and understand that U.S. wheat farmers need a resolution of this matter. With strong Congressional support and oversight, this trade problem will be aggressively pursued, and could present a significant opportunity to reach a solution that provides short-term relief for wheat farmers, and a longer term solution to the problem of a state-run monopoly operating in a free trade area and distorting international trade.

U.S. wheat farmers are not asking for any advantage, we just want a level playing field, and are simply insisting that the Canadian Wheat Board operate in a fully transparent manner under commercial terms in competition with other exporters of grain and to allow full market access for U.S. wheat in Canada shall go a long way in creating market equality.

The North Dakota Wheat Commission appreciates the position of U.S. millers concerning state trading enterprises, and in supporting the U.S. commitment to impose discipline on monopoly state trading enterprises under the WTO. Both the North American Millers Association and the North American Export Grain Association have expressed concern over the market distortions which inevitably result given the legislative protection from competitive discipline enjoyed by the Canadian Wheat Board, and that state trading enterprises such as the Canadian Wheat Board must be forced to accept a larger exposure to competitive market forces.

Thus, we have been greatly disappointed that millers and the North American Millers' Association, have not supported, or at least stayed on the sidelines, in this investigation. This trade matter is not a threat to the U.S. milling industry's supply of wheat. Their argument that they need access to Canadian wheat for quality purposes was shown to be false throughout the investigation. NAMA's position during the Section 301 investigation, and likely continuing today, is simply a self-serving commercial position because U.S. millers know they can buy their wheat cheaper from Canada. The web of influence of the Canadian Wheat Board is vast and NAMA's position has proven this. Despite an official NAMA position paper which calls for an end to discriminatory and distorting trade practices and state trading enterprises in agriculture, the NAMA and its member millers were afraid to bite the hand that has been feeding them underpriced wheat for the past decade. Despite our assurances that any action we would ask the U.S. government to take against the Canadian Wheat Board - even the imposition of tariff rate quotas - would not threaten their access to sufficient quantities of quality wheat, they sacrifice the long-term benefits that they would gain from true reform of the Board, and free and fair trade, for the short-term benefit of cheap, underpriced Canadian wheat. And the irony, if nothing is done, is that U.S. millers and exporters will continue to become increasingly dependent upon a foreign government monopoly for the supply of their principal raw material.

I would like to once again stress to them that the short-term remedies we continue to seek from the U.S. Trade Representative will not create any supply shortages for U.S. domestic millers, pasta manufacturers or grain exporters. The tariff rate quotas we are suggesting are not meant to shut down border trade. The North Dakota Wheat Commission, with its wheat allies, has focused on the longer-term goal which is the breaking up of the Canadian Wheat Board monopoly. Tariff rate quotas will help U.S. wheat farmers survive in the short-term until the longer-term goals can be achieved. If a tariff rate quota is implemented, there will be ample domestic supply and carry-over wheat stock so that our domestic millers and exporters will not be adversely affected. As such, they should be supportive of our efforts to combat the trade distorting practices and price discrimination engaged in by the Canadian

Wheat Board, for resolution of this problem will also be beneficial to their efforts to obtain the highest quality wheat at fairly established prices once the wheat market is operating openly and freely.

Mr. Chairman, over the last decade, the national wheat organizations have supported the NAFTA, annual MFN for China, the Uruguay Round Agreement of GATT, PNTR for China, fast-track (now-Trade Promotion Authority), and continued negotiations for agricultural trade reform in the WTO. With the Canadian Wheat Board trade dispute unresolved, it becomes increasingly difficult to convince our rank and file producers how they can directly benefit from these expanded trade opportunities. To a certain degree that sentiment has been exacerbated, not lessened, with Ambassador Zoellick's affirmative finding. With the injury we have incurred over the past decade, our producers are frustrated that their government has recognized an injury, but will not at this time provide the short-term relief we need in order to stem the ongoing damage caused by the unfair practices of the Canadian Wheat Board. While we appreciate and support the actions and overall goals cited in the February 15th finding, our U.S. trade officials must realize that without short-term relief many of America's wheat farmers will not survive long enough to benefit from resolution of this trade problem which under the U.S. Trade Representatives current plan of action is years away.

I thank you for the opportunity to testify before the Committee today and look forward to answering any questions which you may have.

Neal Fisher
North Dakota wheat farmer, and
Administrator, North Dakota Wheat Commission
4023 State Street
Bismarck, North Dakota 58501
Telephone: 701-328-5111