

Good morning, Mr. Chairman and Members of the Committee. I am Leonard Condon, Director of International Business Relations for Altria Corporate Services, a subsidiary of Altria Group, Inc. I also Chair the Grocery Manufacturers Association's International Affairs Group and the Agricultural Technical Advisory Committee for Trade in Processed Foods (ATAC). I am pleased to be here today to offer GMA's views on the status of the World Trade Organization (WTO) negotiations on agriculture.

GMA strongly supports these negotiations. We believe the WTO's Doha Development Agenda offers great potential for expanding U.S. processed food exports.

### Overview of Processed Foods and Agricultural Exports

Altria Group, Inc. is the parent company of Kraft Foods -- the largest branded foods company in North America and second largest in the world. The Grocery Manufacturers Association (GMA) represents the world's leading branded food, beverage and consumer products companies. Since 1908, GMA has been an advocate for its members on public policy issues and has championed initiatives to increase industry-wide productivity and growth. GMA member companies employ more than 2.5 million workers in all 50 states and account for more than \$680 billion in U.S. sales.

The processed food industry remains a significant and increasingly important component of the U.S. agricultural sector. U.S. exports of processed food products have grown to over \$19 billion annually, representing one third of total U.S. agricultural exports. And, according to USDA's Economic Research Service (ERS), global processed food sales now total \$3.2 trillion, or about three-fourths of total world food sales.

Given that 96 percent of the world's consumers live outside the U.S. and in view of ongoing demographic trends in the U.S. market, future growth for the U.S. agricultural and food complex will be closely tied to our ability to expand export markets. We see enormous potential in emerging markets, due to increases in population size and per capita food consumption. For example, annual growth rates of retail sales of processed food products in developing countries range from 7 percent in upper-middle income countries to 28 percent in lower-middle-income countries, as opposed to the annual growth rate of 2-3 percent in developed countries.

Increased processed food exports will clearly benefit the larger agricultural community, since they are essentially an export gateway for many bulk commodities. Last year, for example, Kraft Foods purchased \$3.6 billion worth of farm commodities for use in its U.S. manufacturing facilities. This included \$1.3 billion worth of dairy products, nearly half a billion dollars worth of pork, and almost one quarter of a billion dollars worth of sugar. On a global basis, Kraft buys \$7 billion worth of agricultural commodities annually. Kraft is one of the world's largest buyers of dairy products, sugar, meats, coffee, oils, and nuts. We also purchase

large quantities of wheat, rice, corn, soy and other crops.

Kraft and other GMA members are very pleased that the U.S. Department of Agriculture (USDA) has recognized the export potential of the processed food sector and has taken steps to assist the industry in accessing foreign markets. First, in response to industry requests, the Administration in 2003 re-instituted the Agricultural Technical Advisory Committee for Trade in Processed Foods (ATAC). The ATAC has worked extremely well in facilitating a dialogue on trade policy priorities between representatives of the processed food industry and negotiators in the Office of the U.S. Trade Representative and in USDA's Foreign Agricultural Service (FAS). In addition, FAS recently created a new Processed Products Division dedicated to assisting U.S. processed foods exporters. This division is an enormous asset to food manufacturers engaged in exporting, or planning to export. The Division also provides critical analytical support to U.S. trade negotiators.

### Impediments to International Trade in Processed Foods

U.S. processed foods exports grew rapidly in the 1970s and 1980s. By the 1990s, processed foods represented a greater share of agricultural exports than bulk commodities. Since the late 1990s, however, growth in exports of processed products has stabilized. Some of this slowdown can be attributed to increased investment abroad, as firms have sought to manufacture products closer to consumers to tailor products to distinct local preferences. However, decisions on whether to export products or source locally are often driven by international trade rules. Despite progress in the Uruguay Round, there are still a number of barriers that impede processed food exports.

### Tariff Barriers

High tariffs are the most significant barrier to trade in processed foods. While tariffs on agricultural products are high in general -- 62 percent, compared with a global average of 4 percent for industrial products -- tariffs on processed products tend to be even higher than their bulk ingredients. These high tariffs are largely a result of "tariff escalation," as countries try to protect local industries by increasing tariffs with the level of processing. For example, while most countries have no tariff on raw cocoa beans, finished chocolate confectionary products face tariffs ranging between 15 and 57 percent.

Additionally, although Uruguay Round commitments required countries to cut tariffs by an average of 36 percent (24 percent for developing countries), high tariffs on processed foods were left relatively unchanged. Since countries were only required to make simple average tariff cuts, they naturally chose to take the largest cuts on already low tariffs (for example 50 percent on a 4 percent tariff) and only the minimum cut (15 percent for developed countries and 10 percent for developing countries) on higher tariffs. If we are to achieve commercially meaningful tariff reductions in the Doha Round, this aggregation of tariff cuts must be avoided.

Tariffication in the Uruguay Round also created a tariff-rate quota (TRQ) system for many sensitive products (for example, sugar and dairy products) that are important ingredients in many processed food products. These TRQs restrict access to these key commodities, raising raw material costs to many manufacturers. This impedes our ability to be globally competitive in products that are high in sugar or dairy content. Furthermore, processed foods often face complex tariff structures abroad when countries not only assess a duty on the product itself but on its ingredients by weight and composition, making it almost impossible to pre-determine the tariff on particular products.

In addition to these tariff barriers, the processed food sector also faces numerous non-tariff barriers that hamper exports. Examples of these types of barriers include unjustifiable labeling requirements, burdensome certification rules and unique packaging standards. These barriers are proliferating, most notably in the European Union (EU). They are often exported from the EU to other countries, as we are seeing in the case of mandatory labeling for products of agricultural biotechnology.

#### GMA Goals for the World Trade Organization (WTO) Negotiations

GMA members have developed priority objectives for the WTO agriculture negotiations. These objectives were endorsed by the Processed Foods ATAC and the WTO Processed Foods Coalition. I will elaborate on a few of our most important priorities:

##### Market Access

GMA is primarily concerned with achieving new, commercially meaningful access for food products. We are pleased that negotiators have agreed, in principle, to a tariff cutting formula that will cut high tariffs more deeply than lower ones. We urge negotiators to develop as ambitious a formula as possible not only to reduce tariff peaks and address tariff escalation, but also to achieve substantial reductions in both bound and applied rates. For many processed products there is an extremely wide disparity between bound and applied rates. For example, in India, the bound rate on pasta is 150 percent whereas the applied rate is 30 percent. As such, even an aggressive 50 percent linear cut in tariffs would not result in any real new market access for our products.

It is also critical that the concept of "substantial improvements in market access" be applied to all products, even those considered "sensitive." The United States has far more to gain by pursuing an ambitious tariff cutting formula for all products, than a modest agenda centered on protecting our "sensitive" commodities. To that end, we also support a tariff cap in order to allow meaningful market access for all products. GMA believes that increased market access for sensitive products must come from tariff cuts, substantial increases in tariff-rate quotas (TRQs), or a combination of the two.

Finally, GMA believes that the U.S. negotiators should provide the intellectual leadership in developing an additional formula to address tariff escalation. The tariff escalation formula should complement the universal tariff cutting formula to ensure harmonization of all agricultural tariffs.

### Domestic Support

GMA member companies are also penalized by U.S. policies that artificially inflate the price of sugar and dairy products. We, therefore, believe that amber box payments must be reduced and capped on a product specific basis to ensure that there are meaningful and equitable reductions in support across all commodities. In order to ensure that domestic support policies are as minimally trade distorting as possible, new disciplines should be developed for the expanded blue box. And there should be a commitment to reduce blue box support over time.

### Export Competition

GMA believes that agricultural export subsidies should be eliminated within five years. The European Union's (EU) system of export refunds and inward processing seriously damages the competitiveness of U.S. products, hurting not only manufacturers but producers as well. For example, export subsidies on luncheon meat allow EU manufacturers to sell at well below domestic cost in the U.S. In the juice sector, export refunds for sugar and direct support for grape musts have resulted in an estimated loss of over \$100 million to one GMA member company over the last ten years.

### Geographical Indications (GIs)

GMA remains extremely concerned about the EU's sustained push for new protections for geographical indications (GIs). We are particularly alarmed by the EU's proposal in the agriculture negotiations to claw back rights to names that the U.S. Patent and Trademark Office considers generic in the U.S., such as parmesan and feta. In many cases, Kraft and other U.S. companies have built brands around these generic names. EU demands to rescind the rights to these and other names should be flatly rejected.

It is important to realize that our concerns go well beyond the loss of commonly known names. The EU initiative on GIs in the Doha Round represents a full-scale rewrite of existing WTO commitments and could seriously jeopardize basic intellectual property rights such as the priority and exclusivity of trademarks. If accepted, EU proposals on GIs could lead to a weakening of the trademark protections that are vital to Kraft and other GMA member companies. We believe that sufficient rules already exist to guarantee that GIs are protected and that new commitments in this area are not needed. New rules may only serve to confuse

consumers and represent a direct threat to the trademarks and brands that are essential to the future growth of the food industry. GMA believes there should be no new mandate on geographical indications.

## Conclusion

GMA strongly supports the WTO negotiations. We are anxious for a swift and commercially meaningful result.

Trade is the engine of global economic growth. A successful conclusion to the Doha Development Agenda will boost world economic activity, lift millions of oppressed people out of poverty, resolve a number of festering trade frictions, and restore credibility to the global trading system. Clearly, the ongoing negotiations cannot be concluded without an acceptable agreement on agriculture. We need stronger disciplines on agricultural support and protection to boost U.S. exports of processed foods and to increase economic efficiency in the global agricultural production and trading system. Given our abundant natural resources, highly efficient agricultural production and marketing system, and superior technological capabilities, we are convinced that U.S. agricultural and food producers can only gain from new WTO rules that further limit government intervention in the agricultural production and trading system.

Thank you for your attention.