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The U.S. International Trade Commission Public Hearing

U.S.- Trans-Pacific Partnership Free Trade Agreement: Advice on Probable Economic Effect of Providing Duty-Free Treatment for Imports

Testimony by Jess Peterson

On behalf of the United States Cattlemen's Association

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Madam Chairwoman, Commissioners, on behalf of the USCA I thank you for the opportunity to present testimony concerning the investigation by the U.S. International Trade Commission (ITC) into the ***Proposed Trans-Pacific Partnership Agreement: Advice on Probable Economic Effect of Providing Duty-Free Treatment for Imports.***

My name is Jess Peterson, and I am 5th generation, Montana rancher. My family has a livestock operation near Miles City, Montana. Currently, I reside here in Washington, D.C. and serve as the Executive Vice President for the U.S. Cattlemen's Association.

As a national association of cattle ranchers and state associations, USCA strives to effectively voice and fairly represent the interests and priorities of the United States cattle industry. USCA, whose membership includes cow-calf operators, backgrounders, and feedlot operators, was founded upon the notion of creating scientifically based agricultural policy that establishes and maintains high levels of competition and transparency within our agricultural markets through grassroots efforts by U.S. cattlemen and our collaborative work with the U.S. government. U.S. cattle producers strive to provide the highest quality of cattle and beef products for domestic and international consumers. USCA firmly believes that in order to maintain these high quality standards, a global trading system which dictates universally consistent regulations for cattle producers and products must be established. USCA supports the development of fair trade policy designed to confront and resolve the regulatory disparities that inhibit fair competition in global beef trade.

As we attempt to predict the outcomes and implications resulting from the alteration of the Harmonized Tariff Schedule of the United States (HTS) with respect to TPP countries, it is critically important to review the recent history and current state of the U.S. cattle industry. Our understanding is that the Commission intends to review the probable ensuing economic effects of eliminating tariffs on imported agricultural products from TPP countries, including bovine carcasses, and both fresh and chilled meat cuts (bone in and boneless). Currently the U.S tariffs on in-quota shipments of beef are some of the lowest in the world. Therefore, it's extremely critical to examine and seek ways that remedy the current distorted levels of trade that negatively impact U.S. cattle producers.

The beef trade that exists between the United States and our major international partners has become deeply distorted by a wide variety of foreign measures. These distortions include a growing disparity in the respective regulatory regimes between major importing countries and a diverse array of tariff and subsidy policies that directly impact global trade flows. Until these disparities, and the diverging trade policies of major trading partners are harmonized, international beef trade will remain distorted. The recovery of U.S. export markets and the elimination of regulatory and trade-based disparities should be a chief priority of U.S. trade policy.

The State of the U.S Cattle Industry

Currently the United States is the world's leading producer and importer of beef, importing nearly two times more beef than the next leading country when including live cattle imports. Prior to the BSE-related events in late December of 2003, the U.S. was also the world's largest exporter of beef.

In 2002, U.S. exports of fresh, chilled, and frozen beef reached more than 1.1 million metric tons, accounting for approximately 18% of global exports.

In 2008, U.S. beef exports were approximately 984,000 metric tons, accounting for roughly 7.1% of production.

The cattle and calf industry continues to be an integral sector of the U.S. economy, accounting for over 20 percent of the total value of U.S. agricultural production in 2006. In 2008, the retail value of U.S beef and edible offal production was $76 billion with the industry producing over 26.5 billion pounds of commercial carcass products.

However, according to the U.S. Department of Agriculture (USDA), the U.S. cattle industry is in decline and in 2009 the lowest calf numbers were reported since 1952. Cattle producers are directly affected by the price of fed/finished cattle, feed costs and the corresponding relationship between beef supplies and beef demand. The US International Trade Commission reported that a 1% change in supplies would impact US prices by 2%.

This relationship between supplies and prices helps explain why there are varying concerns regarding international trade. While increased exports benefit all segments with increased demand, increased imports have historically and primarily benefited processors by allowing them to increase supplies in the United States, thereby impacting domestic prices, and also at times suppressing U.S. producer prices. As noted in the 2000 U.S. Trade Deficit Review Commission report, "Easy availability of imports can limit price increases either by expanding available supply or reducing the ability of businesses to raise prices in order to pass on increases in their costs."

to exist based upon outdated science, distorted beef markets and dramatically reduced U.S. producers' international competitiveness. Therefore it is imperative that we establish harmonized international SPS standards based upon recent sound science in order to maintain the economic well being of our producers and in order to maintain fair transparent international markets.

Distortions in the Global Beef Marketplace

U.S. cattle producers face several trade distorting situations on the open market. Global trade distortions, rooted in high tariffs and agriculture subsidies, have long inhibited global trade in beef and cattle. In turn, high import barriers in other key consumer markets have turned the open U.S. market into the export market of first resort. The European Union (EU) has long banned U.S. exports of hormone-fed beef, despite a decision by the World Trade Organization (WTO) Appellate Body that the ban violates EU obligations under the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures. The EU has remained defiantly out of compliance on this since 1999. In the meantime, the United States has been forced to accept minimal access for shipments of hormone-free beef. The denial of access to the vast EU market severely inhibits U.S. export potential.

In addition, production subsidies in key producing countries artificially spur production, concealing true costs of production and encouraging a global over supply. Several of the largest producing countries -- including Brazil, Australia, Canada, and the EU -- directly subsidize cattle and beef production. The EU has begun to reform its subsidy programs, but for years provided both production subsidies and export subsidies that drove down global prices and depressed U.S. export opportunities. In contrast, U.S. producers receive no subsidies, other than low levels of ad hoc disaster assistance.

The United States maintains an open import market, through the use of a generous tariff-rate quota (TRQ) for beef. In-quota shipments of beef are subject to minimal tariffs. Over-quota tariffs face a 26.4% tariff. By comparison, tariffs elsewhere in the world average approximately 85%. Coupled with highly restrictive TRQs and non-tariff barriers, these high tariffs force excess global supply into the relatively open U.S. market.

The U.S. failure to include adequate import safeguards for beef and cattle is also a major problem. The U.S.-Australia Free Trade Agreement (FTA) included a safeguard that ensures smooth trade flows and helps prevent import spikes. Congress included a negotiating objective for perishable, seasonal, and cyclical products, such as cattle and beef, in the Trade Act of 2002. The Australia FTA's beef safeguard reflects this concern. However, other, more recent U.S. bilateral FTAs were negotiated without including such a safeguard. USCA continues to be concerned that these objectives are not being met in both bilateral agreements and the Doha Round of negotiations. If the U.S. pursues an FTA with the TPP countries these mechanisms that safeguard cattle and beef as a perishable, seasonal and cyclical product need to be implemented.

Finally, dozens of bilateral free trade agreements (FTAs) -- particularly between the EU and other countries -- fail to include agriculture tariffs, in violation of Article XXIV of the WTO's Uruguay Round Agreement, which requires that FTAs include "substantially all" trade between

Viewing the proposed TPP partners shows a diverging array of tariff and non-tariff problems. Currently U.S. trade relationships with Australia have been subject to sectored distortion and significant lack of transparency. The Australian Wheat Board (AWB) currently regulates in such a manner that it offers significant disadvantages to foreign producers, and to some extent has established monopolistic properties over Australian wheat production. Australian wheat products are then able to be sold within U.S. markets at prices which are highly competitive with our own domestic production. AWB operates without the same level of transparency and competition which U.S. producers are subject to, placing them economically at a considerable disadvantage. A similar relationship exists between the United States dairy industry and the New Zealand Dairy Board. Within the its own national market the New Zealand Dairy Board receives substantial governmental preferential treatment, concerning price and quality control, and is classified as a state trading enterprise (STE). The New Zealand Dairy Board creates an added level of beef exports to the U.S. According to Country-Wide's January 5, 2009 article, *Rise in USA Hamburger Market Good for NZ* "The dominant U.S. beef market sets the tone for all world markets, taking 60% of our exported beef and paying $800 million per year. It is a very valuable outlet for beef of dairy origin, both bulls and cows, which we would otherwise have difficulty selling internationally." With this being noted, both U.S. cattle producers and dairy producers alike are undercut by New Zealand's Dairy Board.

STE's significantly impair the basic principles of market competition and allow monopolistic holds to be retained over domestic production while being able to operate freely within international markets. Such foreign export monopolies are outside the parameters of the GATT and should be seriously considered under any investigation of international competitive strategies. Should the United States enter into an international agreement such as the TPP, such disparities must be addressed and corrected in order to preserve the wellbeing of our own domestic markets and allow U.S. products to remain competitive.

<u>Current TPP Countries' International U.S. Trade Relationships</u>

Australia

The Australia – United States Free Trade Agreement (AUSFTA), implemented in January of 2005, eliminates Australia's tariffs on imported agricultural products from the U.S. Specifically, the agreement eliminates all U.S. beef tariffs either immediately, as in the case of the in-quota tariff of 4.4 US cents/kg, or over time as with the 26.4 per cent over-quota tariff which will be reduced to zero over 18 years. After the 18 year period all Australian beef will be free to enter the US market without tariff or quota restrictions and subject only to a price-based safeguard, applicable to exports over a specified amount based on growth from the quota in year 18. Since the implementation of the agreement Australia has annually averaged approximately 807,500,000 lbs of carcass weight beef and veal imports from the U.S.

Brunei Darussalam

Currently the United States and Brunei Darussalam meet regularly under a Trade and Investment Framework Agreement to address a range of bilateral issues and to coordinate on WTO, ASEAN, and APEC initiatives. Brunei Darussalam imposes zero tariffs on agricultural products, however Brunei Darussalam imposes an extremely strict certification system, *Halal Certification,* that requires two representatives from the Brunei Religious Council have to be countries in which cases of BSE were present and as a result banned U.S. beef from their markets following the 2003 BSE scare. The ban resulted in the exclusion of $4.8 billion worth of U.S. beef and beef products. While imports of bone-in cuts of beef and beef products from the United States remain banned, in January 2006, Singapore re-authorized the access of U.S. boneless beef from animals less than 30 months of age in consultation with theWorld Organization of Animal Health (OIE) guidelines.

Vietnam

Following 2007, when Vietnam joined the WTO, the United States incurred significant cuts in agricultural tariffs that will continue through 2012. Vietnam however, sped up the specified WTO tariff reductions, going beyond the final promised cuts. In October of 2008 several of the cuts, specifically on beef, poultry and pork, were reversed. Recently, in line with OIE and other international SPS standards, Vietnam has lifted its BSE ban on U.S. beef, allowing the import of boneless beef, and bone-in beef as well as offal. As a result , Vietnamese imports of U.S. beef and veal has steadily increased since 2007 from 41,869,000 lbs in 2007 to 1,489,715,000 lbs in 2009.

The Effect of TRQs On a Global Scale

Because the United States currently maintains some of the lowest tariffs within the international beef market, entering into agreements which dissolve or phase out, such measures will offer relatively no direct negative impact upon our domestic producers. However, through efficient management of our TRQ's, the United States can re-establish our domestic producers within the competitive international market. Within the targeted countries of the TPP, several significant trade distorting practices exist that must be corrected prior to finalizing any trade agreement which could potentially disadvantage U.S. products if not properly crafted. Historically, TRQ's have been utilized to help buffer some of those distortions, and any agreement which stipulates the elimination or phasing out of TRQ's must addresses any current or potential market disparities. Without such properly crafted language the U.S. cattle and other industries particularly susceptible to international policies which induce unfair competition will be dramatically weakened and substantially diminish our national production. With the current state of the international beef market, which continues to increase in demand overall on an annual basis, diminished U.S. production would be detrimental and considerably limit the growing international population and inherently ensuing market.

Opportunities Within TPP to Enhance U.S. Trade Policy

US Trade laws should not be weakened-- Strong, meaningful, and timely dumping and countervailing laws and remedies are important to ensure U.S. producers are not disadvantaged by injurious dumping, subsidies, and import surges. Again it is important to note that such activities may actually benefit downstream segments in allowing them to increase supplies with artificially low priced import products, or artificial volumes. This allows such downstream segments to ratchet down prices paid to U.S. cattle producers.

Trade remedies are important to achieving expanded trade liberalization; like TPP, they build confidence with domestic producers that USTR is serious about insuring trade is beneficial to

An upward harmonization approach should be taken to minimize risk and gain community support. Concerns exist that some countries may be using products for either direct or indirect production purposes that have not been cleared for use in this country. Past FTA's have also included language limiting import inspections. This undermines the U.S. ability to insure food is safe and produced under the same standards required of U.S. cattle/beef producers. TPP needs to address these shortcomings.

U.S. negotiating resources should be devoted to addressing the regulatory disparities between the key beef trading countries. This issue should take pre-eminence over every other U.S. negotiating priority concerning the cattle and beef sector.

<u>Conclusion</u>

The U.S Cattlemen's Association appreciates the ITC's commitment to ensuring the well being of our nation's cattlemen and beef producers and the opportunity to provide these comments. Too often trade distortions that artificially suppress domestic prices are looked at in a short term relationship in reducing costs to consumers. However, over time such actions may reduce domestic production, which compromises not only our national food security but also the inherent ability U.S. producers hold to provide significant levels of production for a growing global population. USCA firmly believes that through properly crafted international trade agreements, U.S. beef can remain competitive and return to the forefront of worldwide production.

I sincerely thank you for the opportunity to submit this pre-hearing brief and look forward to offering the ITC any further assistance within this investigation.

Sincerely,

Jess Peterson
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U.S. Cattlemen's Association

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