



**INTERNATIONAL TRADE AND THE U.S.
CATTLE INDUSTRY
IN THE NEW MILLENNIUM:**

**AGRICULTURAL
NEGOTIATIONS IN 2001**

WHAT NEGOTIATIONS ARE GOING ON?

- Two major negotiations involving agriculture:
 - World Trade Organization (“WTO”)
 - 140 Nation Members
 - “Built-in” Agenda from the Agreement on Agriculture
 - Free Trade Area of the Americas (“FTAA”)
 - 34 Democracies of the Western Hemisphere
 - Agriculture is one of Nine Negotiating Groups

What are the issues being negotiated?

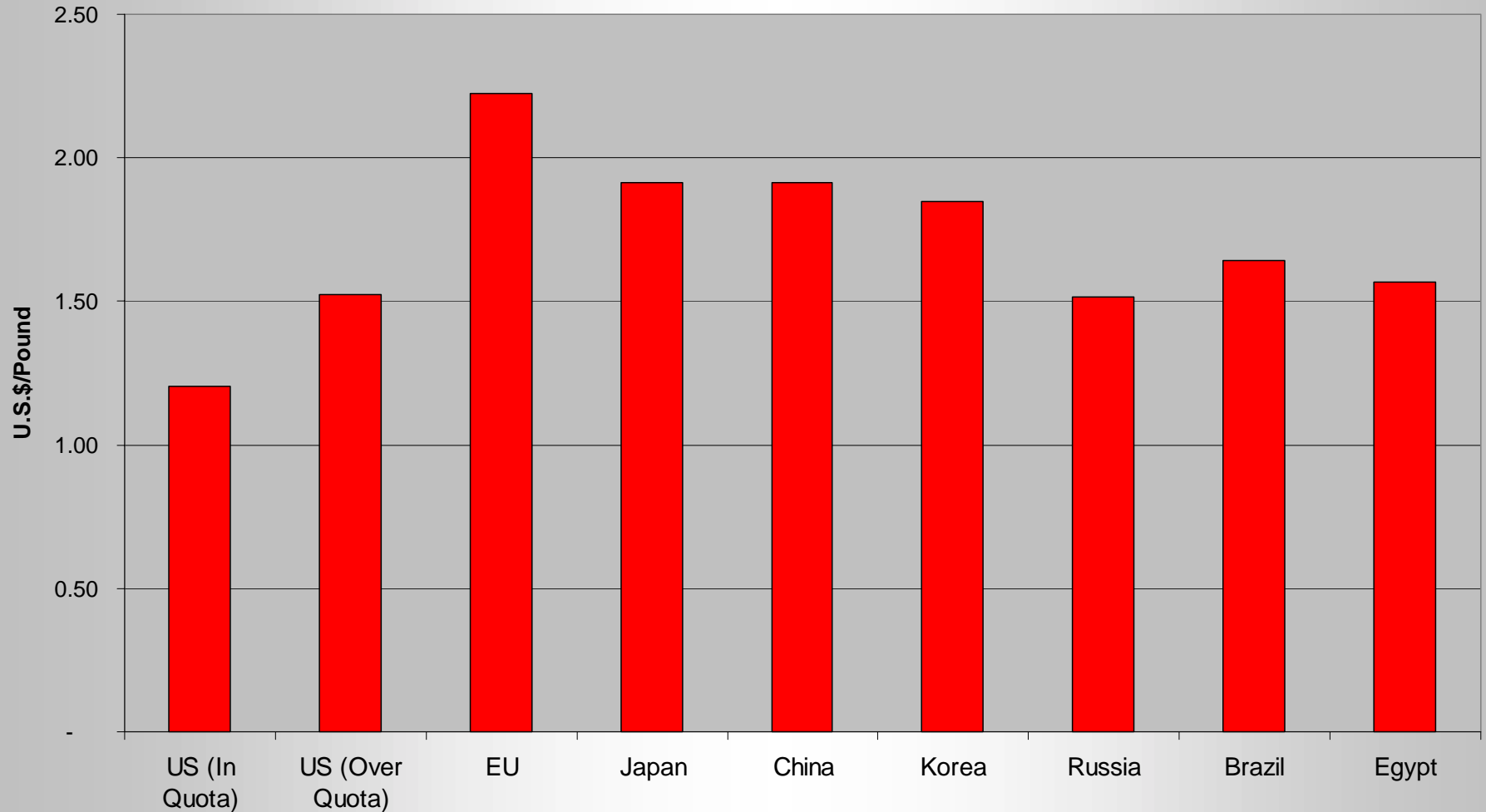
- “Traditional” Issues:
 - Tariffs and TRQs
 - Special Safeguards
 - Domestic support
 - Export Subsidies
 - State Trading Enterprises
- “Non-trade” Issues:
 - Food security
 - Multifunctionality

Tariffs and TRQs

- Substantial Disparities in Tariff Levels --
 - U.S. tariffs generally significantly lower than tariffs of other major beef producing and consuming nations
- Even with TRQs that typically have not been filled, U.S. remains largest importer of beef and veal in the world (not counting beef from imported cattle).

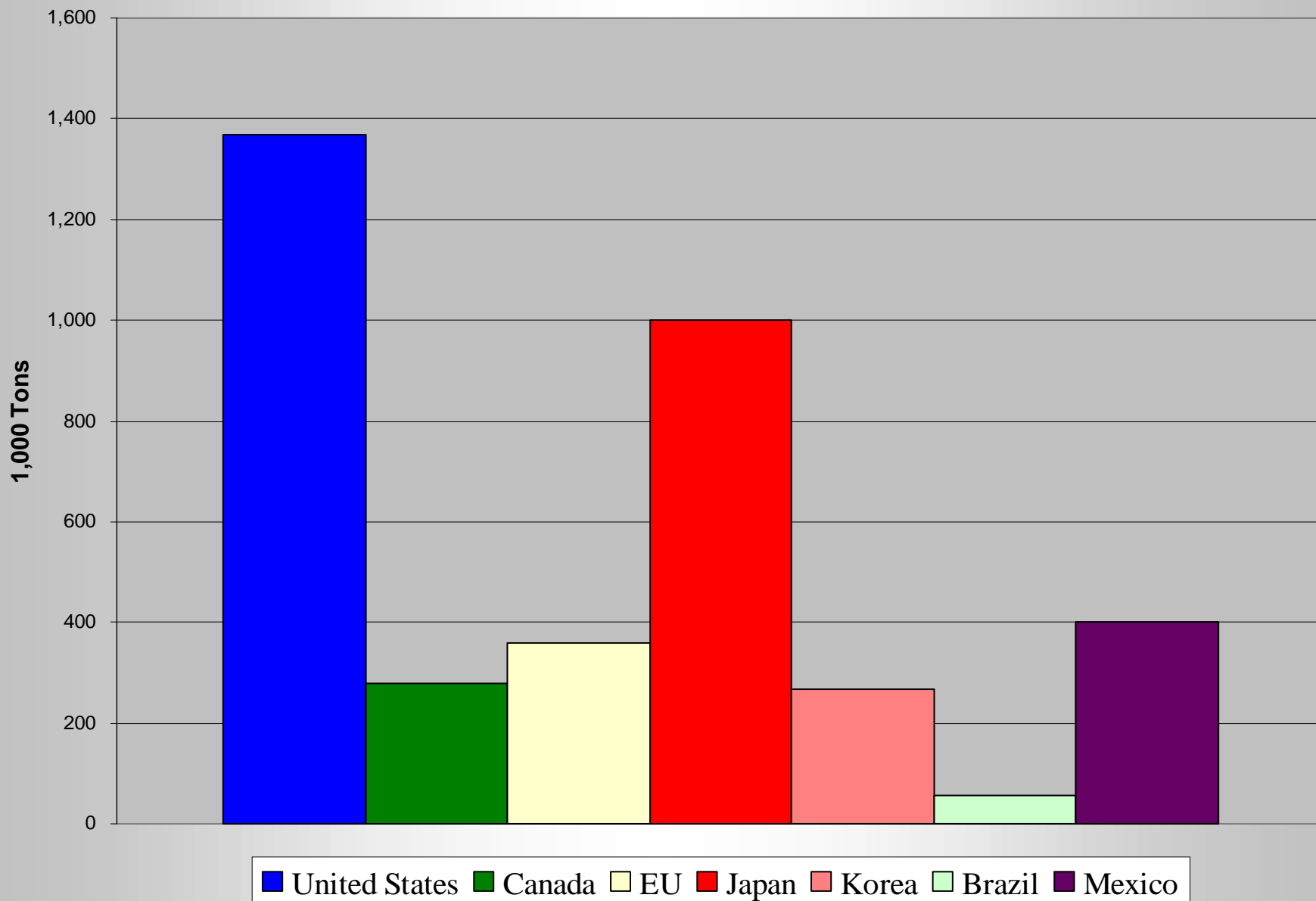
Landed Cost of a Pound Of Beef in Select Countries

(Assuming FAS Foreign Port Price of \$1.32/Lb.)



Compiled from WTO tariff rates for lb. of 0201 (fresh, chilled) beef in U.S. with a FAS value \$1.32/lb.,

Imports of Beef from Select Countries -- 2000



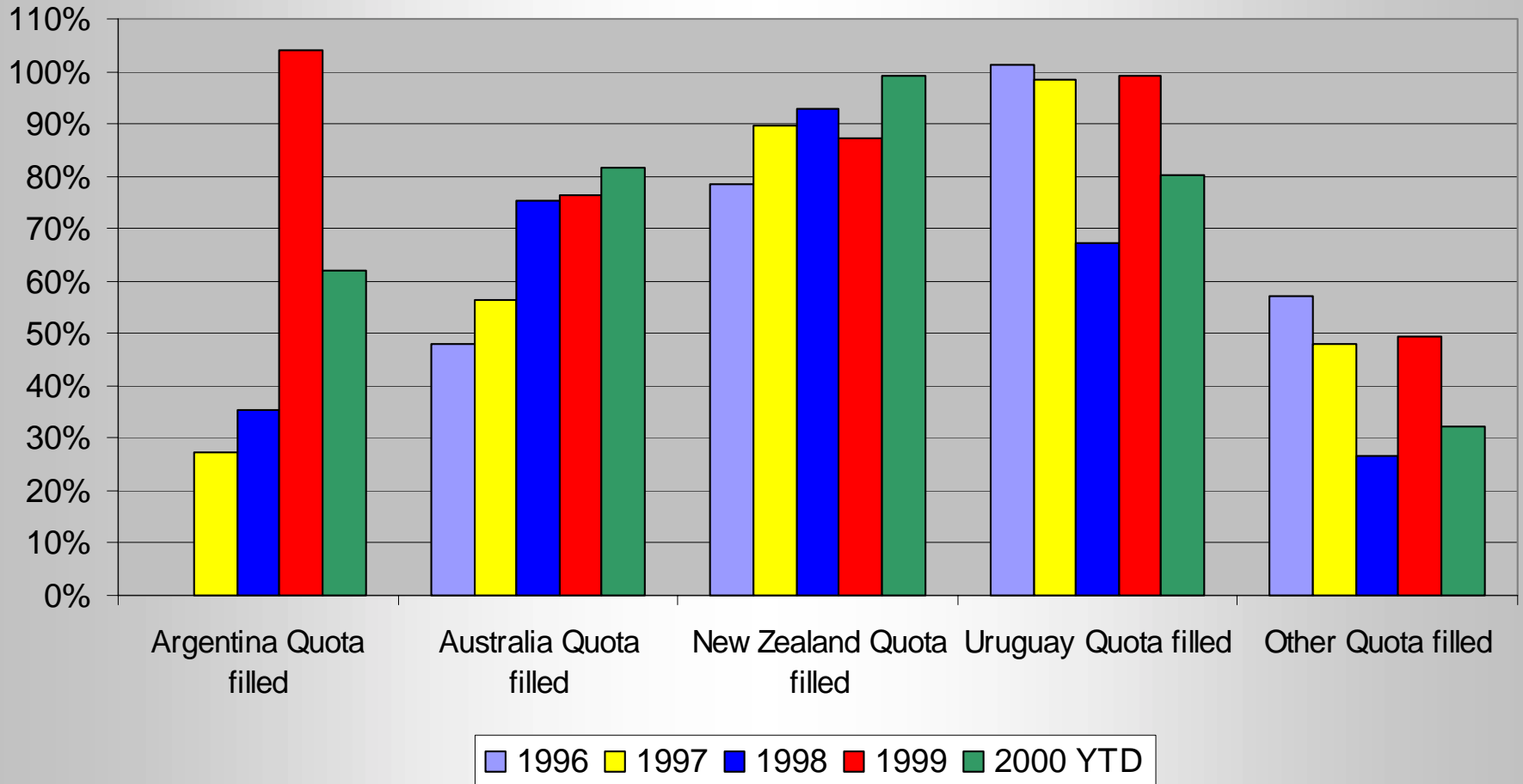
Tariff-Rate Quotas

- TRQ establishes minimum access for imports at a low tariff rate. When quota is “filled,” additional imports enter at higher rates.
- TRQs negotiated during the Uruguay Round replaced import quotas under the Meat Import Act of 1979. TRQs, as the quotas they replaced, apply only to fresh, chilled and frozen beef.

Tariff-Rate Quotas

- U.S. has country-specific TRQs for Australia, New Zealand, Japan, Uruguay and Argentina, and an “all others” basket.
- TRQs do not apply to Canada or Mexico (NAFTA)
- Total volume under TRQs = 696,621 metric tons or 1.5 billion pounds.

U.S. TRQs on Beef



U.S. Negotiating Proposals for Tariffs and TRQs (WTO and FTAA)

- Tariffs
 - Reduce substantially or eliminate tariff disparities
 - Reduce or substantially eliminate tariff escalation that imposes higher tariff on processed product than on primary product

U.S. Negotiating Proposals for Tariffs and TRQs

- TRQs
 - Reduce in-quota duties based on TRQ fill rate history
 - Automatic trigger to reduce in-quota duty when fill rate low
 - Increase in-quota volumes
 - Reduce over-quota duty rates

U.S. Industries with TRQs

- Beef
- Lamb
- Dairy
- Sugar
- Cotton
- Peanuts
- Tobacco

COUNTRIES WITH LIVESTOCK AND LIVESTOCK PRODUCT TARIFF QUOTAS

- Barbados Poultry, swine
- Bulgaria Beef, swine, sheep, turkey and poultry
- Canada Broiler hatching eggs and chicks; chicken, live, meat and products, turkey, live, meat and products, beef and veal
- Colombia Beef; pork and swine; poultry
- Czech Republic Cattle and beef; swine and pork; sheep and meat; poultry meat
- Ecuador Poultry
- El Salvador Beef; poultry

COUNTRIES WITH LIVESTOCK AND LIVESTOCK PRODUCT TARIFF QUOTAS

- EC-15 Cattle, beef, sheep, mutton,
- Guatemala Beef, poultry
- Hungary Cattle and beef, sheep and goats, poultry
- Israel Sheep and goats, fresh, chilled or frozen
- Korea Pure-bred breeding cows; pure-bred breeding swine; beef; pork; poultry
- Malaysia Live swine and pork; live poultry and poultry meat
- Mexico Poultry

COUNTRIES WITH LIVESTOCK AND LIVESTOCK PRODUCT TARIFF QUOTAS

- Morocco Beef; swine; and poultry
- Nicaragua Beef; poultry
- Norway Beef; swine; poultry
- Panama Swine; poultry.
- Philippines Cattle, live swine, live goat, live poultry, beef, pork, goat meat, poultry.
- Poland Live cattle; beef; live swine; pork; live poultry, poultry meat.
- Romania Beef and swine

COUNTRIES WITH LIVESTOCK AND LIVESTOCK PRODUCT TARIFF QUOTAS

- Slovakia Cattle and beef; swine and pork; sheep and meat of sheep; poultry meat.
- Slovenia Beef; pork.
- South Africa Beef; pork; sheep meat; poultry meat.
- Switzerland Live cattle and swine, live sheep.
- Tunisia Cattle, beef, sheep meat.
- Venezuela Pork, poultry.

Special Safeguards

- Article 5 of the WTO Agreement on Agriculture authorizes additional duty on imports of specified agricultural products when imports exceed either certain volumes or prices at which the imports enter fall below a particular trigger price. This additional duty is called a “Special Safeguard” (“SSG”).
- Formula for import volume trigger is based on combination of (1) average market share held by imports during preceding three years and (2) absolute volume change in domestic consumption of the product in the most recent year compared to the preceding year. The greater the market share held by the imports, the lower the trigger level (i.e., the amount of which imports must increase before additional duty may be imposed).

Special Safeguards

- Formula for price trigger is based on a reference price equal to the average c.i.f. unit value of the product from 1986 to 1988 (“reference price”).
- Both the United States and the European Union have SSGs for fresh and frozen beef. The European Union also has SSGs for certain classes of live cattle. As shown in the accompanying table, the EU’s trigger prices for fresh, chilled and frozen beef are generally substantially higher than the U.S. trigger prices for comparable products, e.g.,:

Special Safeguards

SSG Trigger Prices (US\$/CWT)

	<u>EU</u>	<u>US</u>
Fresh cuts with bone-in:	\$92.59 - \$221.33	\$94.25
Fresh cuts, boneless:	\$283.55	\$108.58
Frozen cuts with bone-in:	\$77.73 - \$138.38	\$99.76
Frozen cuts, boneless:	\$151.00	\$108.58

Members with SSG Measures

- Australia
- Barbados
- Botswana
- Bulgaria
- Canada
- Colombia
- Costa Rica
- Czech Republic
- Ecuador
- El Salvador
- EC (15)
- Guatemala
- Hungary
- Iceland
- Indonesia
- Israel
- Japan
- Korea
- Malaysia
- Mexico
- Morocco
- Namibia

Members with SSG Measures

- New Zealand
- Nicaragua
- Norway
- Panama
- Philippines
- Poland
- Romania
- Slovak Republic
- South Africa
- Swaziland
- Switzerland-Liechtenstein
- Thailand
- Tunisia
- United States
- Uruguay
- Venezuela

Special Safeguards: U.S. Proposal

- Eliminate transitional special agricultural safeguard

Special Safeguards: WTO Negotiations

Proposals range from continuing with the provision in its current form, to its abolition, or its revision to prevent its use on products from developing countries. However, the right to use the special agricultural safeguard would lapse if there is no agreement in the negotiations after Seattle to continue the “reform process” initiated in the Uruguay Round.

Domestic Support

Domestic Support subsidies are identified by “boxes” which are given color names:

Green box (permitted): Subsidies not connected to production and that have no or minimal trade distorting effects.

Amber box (to be reduced): Subsidies that do affect production or trade flows. Measured in terms of Aggregate Measurement of Support (“AMS”). Schedules for reduction commitments negotiated in Uruguay Round.

Blue box (permitted with limits): Direct payments linked to reductions in production and small payments to encourage ag and rural development.

Domestic Support -- WTO Negotiations

- **Green box subsidies:** Some countries want to review subsidies in this box because of concern they may influence production or prices in certain circumstances.
- **Amber box subsidies:** To be reduced further.
- **Blue box subsidies:** Some want to scrap this exception because payments are only partly decoupled from production. Others believe it is important tool for supporting and reforming agriculture, and for achieving certain “non-trade” objectives.

Domestic Support: U.S. Proposals

- Establish two categories: Exempt and non-exempt.
- Identify exempt support by criteria-based list of measures that have no or only minimal distortions of production/trade (e.g., farm-income safety net and risk management tools; environmental and natural resource protections; rural development; new technologies; structural adjustment)
- Exempt measures must be targeted, transparent, and designed to minimize impacts on other WTO Members, particularly developing countries

Domestic Support: U.S. Proposals

- Non-exempt Measures: Use formula-based approach to arrive at levels of support that are more proportionate among WTO members at the end of implementation than they are now.
- Each Member to reduce level of non-exempt support from final bound AMS to a new final bound level that is equal to fixed percentage of Member's value of total agricultural production in a particular based period.

Export Subsidies: Uruguay Round Reduction Commitments

- Developed country Members: Reduce value to 36 percent below base period level and quantity by 21 percent over six year period
- Developing country Members: Reduce value to 24 percent below base period level and quantity by 14 percent
- Least developed country Members: No reduction commitment required

Export subsidies: WTO Negotiations

Some countries propose complete elimination, while others oppose such proposals. Some countries are interested in examining rules to prevent circumvention of prohibitions on use of export subsidies through export credits or state trading enterprises.

Export Subsidies: U.S. Proposal

- Reduce to zero budgetary outlays and quantity commitments through progressive annual reduction commitments

State Trading Enterprises

- Article XVII of the GATT 1994 permits Members to establish or maintain a State enterprise, or to grant to any enterprise exclusive or special privileges if the enterprise, in its purchases or sales involving imports or exports, follows same GATT principle of non-discriminatory treatment as prescribed for governmental measures affecting imports or exports of private traders.
- STEs shall make purchases or sales “solely in accordance with commercial considerations.” GATT Art. XVII:1(b).

State Trading Enterprises Involved in Beef

New Zealand: New Zealand Meat Board

Purpose: The Board's overall object is to ensure that New Zealand meat producers obtain the best possible long term returns from meat exports through market development, information dissemination and promotion of efficiencies along the production and marketing chain.

Korea: Livestock Products Marketing Organization

Purpose: Administers South Korea's Meat TRQs.

State Trading Enterprises: WTO Negotiations

- **U.S. Proposal:**
 - End exclusive import or export rights
 - Eliminate use of government funds to support/ ensure STE financial viability
 - Increase transparency of operations, including notifications of acquisition costs, export pricing and other sales information
- **Other proposals:**
 - Greater disciplines to avoid market distorting effects; abolish price-pooling and cross subsidization.

“Non-trade concerns”: WTO Negotiations

Agriculture Agreement includes provisions for “non-trade” concerns such as food security, the environment, structural adjustment (e.g., rural development) and so on. Many countries take the view that agriculture is not only about producing food, but also has other functions, including these non-trade objectives. Question being debated in the WTO is whether “trade-distorting” subsidies, or subsidies outside the “green box”, are needed or should be permitted to help agriculture perform its other roles.

“Non-trade concerns”: U.S. Proposals

Recognize importance of domestic programs that promote sustainable agriculture and rural communities in a manner that minimizes distortions. Propose a provision, building upon current rules, for exempt programs deemed to promote these objectives in ways that minimize trade distortions (i.e. “Green Box”). Developing and least developed countries should be given additional flexibility to provide criteria-based support that is integral part of their individual development programs.

WTO Negotiations -- Current Status

Negotiations commenced in early 2000.

Some 80 member governments have submitted 16 proposals and three discussion documents. Summaries of proposals submitted by United States, Canada, Cairns Group, EU, Japan and India are appended.

Negotiating meeting held in March, June, September and November 2000.

Next meetings scheduled for February and March 2001 to focus on examination of proposals received and conduct a “stock taking” of the proposals and consideration of what to do in the next phase and how long that should take.

FTAA Negotiations

Background

Free Trade Area of the Americas negotiations involving 34 countries with democratically elected governments in the Western Hemisphere

Goal is to conclude overall agreement by 2005.

Recent proposals to accelerate schedule to complete agreement by 2003 and implement by 2005.

FTAA Negotiations on Agriculture

Objectives of the Negotiations:

- progressive elimination of all tariffs and non tariff barriers and other measures that restrict trade;
- all tariffs subject to negotiation with different trade liberalization timetables may be negotiated;
- facilitate integration of smaller economies and their full participation in negotiations.
- Issues of rules of origin, customs procedures, and Technical Barriers to Trade shall be addressed in the Market Access negotiating group.

FTAA Negotiations on Agriculture

Objectives of the Negotiations (con't):

- Ensure that SPS measures are not applied in arbitrary or unjustifiably discriminatory manner or as disguised restriction to trade, to prevent protectionist trade practices and facilitate trade in the hemisphere.
- Eliminate export subsidies affecting trade in the Hemisphere.
- Identify and bring under greater discipline other trade-distorting practices for agricultural products.
- Incorporate progress made in the WTO negotiations on agriculture.

FTAA Negotiations: U.S. Proposals

- Market access: Coordinate base rates and timetables for tariff reductions with Negotiating Group on Market Access. But, market access issues unique to agriculture to be addressed solely within purview of Negotiating Group on Agriculture.
- Export subsidies and other trade-distorting practices: Eliminate export subsidies. Establish mechanisms to prevent export of agricultural products to the FTAA by non-FTAA countries that use export subsidies. Staged elimination of exclusive export rights of state trading enterprises.
- SPS Measures: Strengthen SPS collaboration in WTO and in international standards-setting bodies.

Rules of Origin

- Rules for identifying country in which a product was produced. Important for operation of FTAs.
- In FTAA negotiations, U.S. proposes “specific tariff shift” approach. In the case of cattle and beef, U.S. approach means beef produced in the United States from fed cattle imported from Canada is “U.S. beef” because processing of the cattle results in a tariff shift.
- Other approaches include EU-Mexico FTA rules of origin: All beef products must be wholly obtained in the EU or Mexico. “Wholly obtained” defined as products from live animals raised in EU or Mexico.

Rules of Origin

Example

Mexican feeder
cattle fed and
slaughtered in U.S.

NAFTA

U.S. beef

EU-Mexico FTA

Mexican beef

Bilateral FTA Negotiations

- U.S.-Singapore Free Trade Agreement Negotiations
 - Announced in November 2000.
 - Two rounds of negotiations conducted in December 2000 and January 2001.
- Issues: market access; safeguards, trade in services, intellectual property, dispute settlement and institutional arrangements related to the free trade agreement; competition policy, customs rules, textiles, and labor and environment.
 - Indications are Singapore is resisting inclusion of labor and environment

Bilateral FTA Negotiations

- U.S.-Chile Free Trade Agreement Negotiations
 - Announced in November 2000.
 - Second round of negotiations completed in January 2001
 - Issues include: trade in industrial and agricultural goods; rules of origin and customs procedures; safeguards; antidumping, countervailing duties and subsidies; SPS measures; technical norms and standards; investment; services; financial services; E-commerce; competition policy; intellectual property; government procurement; transparency/dispute settlement; labor issues; and environmental issues.