CAFTA Will Hurt U.S. Cattle Producers

Immediate Action Needed to Level the Playing Field

Montana Cattlemen's Assoc.
P. O. Box 31436
Billings, MT 59107

Tele: 406-259-5433
Fax: 406-537-2334
Email: mca@montanacattlemen.org

R-CALF USA
P.O. Box 30715
Billings, MT 59107

Tele: 406-252-2516
Fax: 406-252-3176
Email: r-calfusa@r-calfusa

The global market place for cattle and beef trade is one of the most heavily distorted sectors of the world's economic activity. These global distortions have seriously harmed U.S. cattle producers by reducing prices paid for U.S. product in the U.S. and increasing prices paid for U.S. product around the world, and by limiting export opportunities other than the United States for other major beef producing nations. The domestic cattle industry has suffered staggering losses since the early 1990s measuring in the billions of dollars, with more than 100,000 cattle ranches and farms ceasing operation or ceasing the handling of cattle in that time. The decline of the cattle industry in America – the largest part of American agriculture, has decimated rural communities across the country which depend on a healthy agricultural sector for survival.

While the United States market is very open (we are the largest importing nation despite being the largest producing nation and have very low tariffs on cattle and, in addition, large volumes of beef enter duty free under a TRQ system) and is characterized by little government support and science-based sanitary and phytosanitary measures for imports. Our trading partners often employ (1) high tariffs, (2) massive subsidies (for some), (3) unscientific SPS measures, (4) misuse of state trading enterprises in grains to artificially lower costs of production in certain major exporting nations and (5) refusal to open markets even where FTAs have been negotiated through the exclusion of large segments of agricultural trade (including cattle and beef) in violation of WTO obligations and requirements. Such actions ensure that for U.S. producers many markets are closed, U.S. exports are limited and global export prices and prices in the U.S. are lower than they would be in an environment of harmonized tariff levels, elimination of export and domestic subsidies and harmonized SPS standards.

In summary: Global market for cattle and beef is grossly distorted to the disadvantage of US cattle producers.

- Tariffs in the rest of the world on beef average 85%; on actual imports, those in the US just 2.5% (26% on above quota imports).
- Massive subsidies by the EU and large subsidies by Brazil, Australia, and Canada vs. essentially none from the US [$10 + billion vs. $0].
- Non-scientific SPS barriers which have shut US product out of the EU and 40 other countries.
- State trading enterprises in grains which distort competition by making grains available to foreign cattle producers at prices not market driven.
- The abuse of WTO FTA and customs union provisions in ways that do not open foreign markets to trade in cattle and beef.

Therefore, no further FTA's should be negotiated and approved until the above issues are appropriately addressed in both the WTO and within the Doha Round.

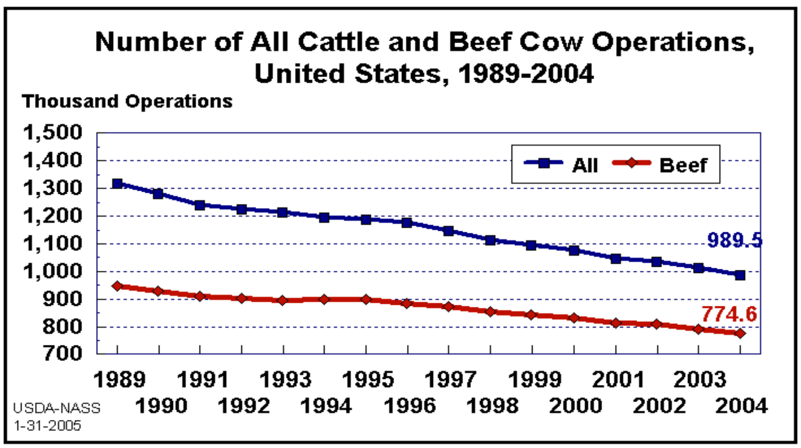
CAFTA Fails to Address Global Trade Distortion

In a global market where there is a level playing field for U.S. cattle producers, the U.S. should have a huge and growing trade surplus as there are only a few countries with the capacity to supply large quantities of quality beef for export. Yet, prior to the BSE outbreak in 2003 in Canada, the U.S. has been running a significant trade deficit in cattle and beef.

United States Beef and Cattle Trade Flows, 1999-2003 ($1000)

	1999	2000	2001	2002	2003
Cattle Imports	1007	1157	1464	1448	867
Cattle Exports	174	272	270	131	64
Total, cattle	-833	-866	-1194	-1317	-803
Beef, Imports	1904	2205	2514	2513	2364
Beef, Exports	2655	2909	2548	2489	3036
Total, Beef	751	704	34	-24	672
Total, Cattle & Beef Trade	-82	-182	-1160	-1341	-130

The CAFTA countries have a collective total of 10.5 million head of cattle, the size of the Canadian cow herd prior to the BSE outbreak. Hence, the CAFTA agreement will likely add to the trade deficit. By exacerbating the current trade imbalance the CAFTA agreement will accelerate the decline of family ranching operations.



<u>CAFTA Fails to comply with U.S. Senate Directives</u>

The CAFTA agreement does nothing to classify beef and live cattle as a perishable and cyclical product. When trade promotion authority passed the US Senate a directive was issued to so classify cattle and beef. Further, special rules were to be developed for cattle and beef.

Unlike the Australian FTA which was sensitive to Congressional and cattle industry concerns by providing a safeguard on imports when U.S. beef prices dropped dramatically, a phase out on tariff rate quotas (TRQs) over 18 years and limited the beef imports to previous TRQs for 3 years or until the U.S. resumed post BSE export levels, the CAFTA does not contain such provisions and eliminates the existing U.S. special safeguard on beef from CAFTA countries. This failure will ensure that U.S. cattle producers will once again be losers in the CAFTA.

Trade Liberalization Hurts U.S. Producers

CAFTA provides for trade liberalization in cattle and beef and U.S. cattle producers will pay the price. While the proposed FTA does not allow special safeguards on beef imports into the United States, the agreement grants special safeguards on U.S. exports to the CAFTA countries. The US already runs a 52.9 million pound trade deficit with CAFTA countries on beef and this trade deficit will worsen if CAFTA is implemented.

CAFTA Fails to Implement COOL

The proposed CAFTA agreement ignores the U.S. public and congress' definition of country of origin. Instead, CAFTA allows for the transshipment of cattle and beef. It would allow beef produced in CAFTA-country slaughtering plants from cattle born and raised in non-CAFTA countries to be transshipped to the U.S. under the duty-free terms of the CAFTA agreement.

America's Ranchers Would Be Hurt By Central American Trade Pact

By: Dennis McDonald

It's time to clear the air about the Central American Free Trade Agreement, (CAFTA) a deal that would create a free trade zone between the United States and the six nations of the Central American Region. It seems that there are some major misperceptions out there on whether this deal would be helpful or harmful to America's cattle producers. Allow me to set the record straight before Congress votes on the agreement this year. CAFTA is a bad deal for America's ranchers and cattlemen.

CAFTA will worsen, not improve our already considerable 52.9 million-pound, $53 million trade deficit with Central America in beef and beef products. The CAFTA countries are low-cost large cattle and beef producing countries. Their combined cow herd size is the equivalent of Canada. Their cost of producing beef is 25% of U.S. producer costs due to lower regulatory costs, taxes, and low labor costs. This agreement once again challenges the viability of the U.S. family rancher.

CAFTA contains no real safeguards for U.S. cattle producers yet it includes significant protections for Central American producers. Because of this imbalance CAFTA would harm U.S. producers and would set a dangerous precedent for future trade agreements.

CAFTA would also eliminate the economic safeguards necessary to protect America's cattle industry as provided for under the World Trade Organization (WTO) Agreement on Agriculture and the Trade Promotion Authority Legislation. The agreement fails to provide the safeguards that would curtail imports in times of falling prices and corresponding surges in imports. And yet this deal allows two of the six CAFTA countries to impose special restrictions against U.S. beef exports. Moreover, CAFTA does not contain the necessary "born and raised" standard for determining country of origin for beef and beef products. Without this labeling, consumers are unable to differentiate their product from ours. Instead, the agreement gives preferential treatment to beef based upon the country where the animal is slaughtered. This could allow beef that was born and raised in other large cattle producing nations, including Argentina and

Brazil, which is slaughtered in a CAFTA country to enter the U.S. at a preferential duty rate. The agreement allows the transshipment of cattle or beef so that other South and Central American countries could send beef to the US that originated in countries outside of the six Central American countries. This could turn Central America into a beef clearinghouse for countries not covered by CAFTA. How is this fair trade?

Those who support this trade agreement note that the U.S. would obtain immediate duty free access to CAFTA countries for prime and choice cuts. But the fact of the matter is that there is limited demand for these products in the CAFTA countries because they represent a tiny market. Many citizens of these countries, who live on less than $2 per day, simply cannot afford these prime cuts such as a porterhouse and strip. Because of this, CAFTA countries are not likely to be major export destinations for U.S. beef. At the same time, the U.S. market will remain a major target for foreign producers, worsening an already large beef trade imbalance.

It is important to note the prime and choice-cut niche market that the hotels and resorts provide. As mentioned, supporters of this agreement point to this demand for quality grain-fed beef. This is accurate. However, one needs to pose the question, “What is being imported and how will these imports affect their cattle production?” Wheat and grain exports will increase significantly with the passage of CAFTA. This U.S. wheat and grain along with improved genetics and herd health within the CAFTA countries will enable them to meet the resort/hotel demand for high quality beef. It would appear that within the next decade the Central American cattle industry will have a new look – a larger herd size, improved quality, and the groups supporting this agreement will have created a competitor that will have unfair advantages.

Furthermore, supporters of CAFTA argue that this agreement is a good way to “reward” *Central American ranchers.* R-CALF USA is solely focused on the interests of U.S. cattle producers. The bottom line is that CAFTA is a severely flawed agreement that will hurt the U.S. beef industry and the families who depend on it for their livelihood. As Congress prepares to vote on CAFTA, it is important that the voices of those who will be hurt the most by it are heard. Members of Congress need to know that the voices of the cattle ranchers of America say “NO” to CAFTA.