GROSSLY DISTORTED GLOBAL CATTLE AND BEEF MARKETS – HARMING U.S. CATTLE AND BEEF PRODUCERS AND RURAL AMERICA:

IMMEDIATE STEPS NEEDED TO LEVEL THE PLAYING FIELD

<u>Position Paper of</u>

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I. INTRODUCTION

The global market place for cattle and beef trade is amongst 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 around the world, and by limiting export opportunities other than the United States for other major 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 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 large volumes of beef that enter duty free under a TRQ system) and is characterized by little government support and science-based sanitary and phytosanitary measures, this is not true of most of the rest of the world. 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) failure 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 many markets are closed, US 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.

While the European Union is the worst offender with combination tariffs well north of 100% ad valorem, more than $9.5 billion in subsidies to the sector and SPS measures that have been found inconsistent with WTO obligations, they are not alone. The U.S. government has estimated that bound tariffs in the sector by our trading partners average 85%. Subsidies are provided to expand exports and build up industries in major producing nations, such as Australia, Brazil, Canada as well as the EU. Two major trading partners, Australia and Canada, have state-trading enterprises for grains which are believed to distort prices for major inputs to domestic cattle production in those countries.

Indeed, the Australian Wheat Board has acknowledged publicly that they do so. Fifty-eight countries closed their markets in whole or in part to U.S. exports after a single imported cow from Canada was found in Washington state to have BSE and have maintained restrictions without risk assessments to justify such action and contrary to the international standards established by the OIE. The result is artificially high prices in major consuming markets like Europe and Japan (in 2002, the average slaughter steer price in the EU was $127.42/cwt and in Japan, Holstein steers sold at $171.57/cwt while U.S. steer prices never went above $75/cwt in any month of the year) and artificially low prices in open markets like the United States. Despite being highly educated, entrepreneurial and blessed with abundant land, U.S. producers are being destroyed, not because they are not competitive, but because the global market place is stacked against them.

While tariffs and subsidies are being negotiated as part of the ongoing WTO Doha Development Round, it is critical that the United States obtain **parity** for U.S. producers with both developed and developing countries on these critical issues through the negotiations. Based on discussions to date, such parity is unlikely without a sectoral approach being adopted for cattle and beef within the Doha Round.

Similarly, it is critical that other distortions be eliminated through harmonization of SPS standards actually applied by major consuming nations, that state trading enterprises be eliminated (or forced to end their distortive practices) and that countries not be allowed to maintain FTAs where in fact substantially all trade is not covered.

Without such comprehensive actions, current efforts to negotiate FTAs with many countries, including most of the major producing nations – but few of the major consuming nations – have the potential perverse consequence of worsening the position of U.S. cattle producers and the rural communities which depend on them by further opening the U.S. market without ensuring that U.S. producers (and other producers) can compete in a non-distorted manner globally.

Finally, Congress has recognized that perishable products like live cattle and beef need special rules included in trade agreements to facilitate trade and provide the tools necessary to address pricing or volume problems quickly when they occur. The U.S.-Australia FTA includes such a provision for beef. It is critical that every trade agreement (whether bilateral, plurilateral or multilateral) have such special rules and that they be applicable to cattle and beef and be automatic in operation.

II. GLOBAL DISTORTIONS

A. Tariffs

The United States allows various categories of beef to be imported duty-free pursuant to free trade agreements (ex. Mexico and Canada under NAFTA) and preferential treatment programs (ex. Peru under Andean Trade Preference Act). Beef from all other countries is subject to a Tariff Rate Quota system and imports within the TRQ (covering 696,621 MT) are subject to a tariff that is nearly zero. Import volume that falls outside the TRQ is subject to a 26.4% duty. In contrast, major consuming and several producing nations maintain high tariffs and/or highly restrictive tariff-rate quotas (TRQs) to limit market access, which limits both export opportunities for U.S. producers, and leads to other producing nations focusing on the same open beef markets like the United States resulting in lower prices in the United States than would otherwise be the case.

B. Subsidies

Major beef producing nations have lavished billions of dollars in aid to support and expand beef production in their respective countries. For example, the EU is the largest agricultural subsidizer in the world and is projected to spend over $9.5 billion for both export and domestic subsidies on their beef and cattle sectors in 2005. Likewise, Brazil has spent hundreds of millions of dollars to expand their beef sector through both domestic and export subsidies and is understood to be more than doubling the amount of subsidies to the sector in 2004 to roughly a half billion dollars.

Comparison 2003 Effective Tariffs on Beef

Code	Description	U.S. Effective rate	Japan	China	Jamaica	Korea	EU[1]	Turkey
020130	Meat of bovine animals, fresh or chilled: Boneless	.274%	50% (safeguard) (Normally 38.5% of CIF)	34%	40%	40.5%	79.5%	227.5%
020230	Meat of bovine animals, frozen: Boneless	2.15%	50% (safeguard) (Normally 38.5% of CIF)	34%	40%	40.5%	93.1%[2]	227.5%

[1] EU effective rate based on 2002 data.

[2] Based on tariff rates for 0202.30.10 and 0202.30.50.

Further, both Australia and Canada are engaged in providing hundreds of millions of dollars in support to their respective cattle and beef sectors in an effort to artificially prop up those industries:

Country	Est. Subsidy per Head ($)
EU	$87.94
Canada	$6.12
Brazil	$5.38
Australia	$2.96

Conversely, outside of disaster assistance or drought relief, the cattle and beef producer in the United States receives no support from the government.[3]

C. *State Trading Enterprises*

State Trading Enterprises maintained in Australia and Canada operate to distort internal prices for key feedstuffs through the use of wheat boards to support larger herds than would otherwise be the case. In response to concerns about grain prices during a 2002 drought, the Australian Wheat Board stated that "the AWB National Pool is currently tailoring its current wheat export program in order to preserve vital grain stocks in drought-affected regions of Australia."[4]

D. *Unjustified Sanitary and Phytosanitary Measures*

Many of the major consuming countries have imposed restraints on U.S. exports of cattle and beef that are not based on risk assessments or otherwise comply with WTO SPS obligations. While all governments accept the fact that some trade restrictions may be necessary to ensure food safety and animal and plant health protection, the use of sanitary and phytosanitary restrictions to shield domestic producers from competition is unacceptable. For many years, the EU has unjustifiably banned U.S. exports of beef on the grounds of hormones despite adverse WTO panel and Appellate Body reports. Beginning in December of last year, U.S. beef has been banned in fifty-eight markets around the world on the basis of BSE without adequate scientific justification or WTO notification.

[3] The United States does not subsidize the cattle industry nor provide export assistance for beef. WTO, Notification of the U.S. of Domestic Support, G/AG/N/USA/51, 17 March 2004; WTO, Notification of the U.S. of Export Subsidies, G/AG/N/USA/53, 2 June 2004.

[4] Australian Wheat Board Ltd, AWB confident that domestic grain demand can be met (press release), October 18, 2002.

Global BSE Trade Ban in place as of Feb. 1, 2004[5]
(* partially removed as of June 11, 2004)
(# country joined EU and ban lifted)
(^ banned applies to Washington State only)

Argentina	Cayman Islands	Guatemala*	Kuwait	Poland #	Taiwan
Australia	Chile	Honduras	Latvia #	Qatar	Thailand
Bahrain	China	Hong Kong	Macao	South Africa	Trin.& Tobago*
Barbados	Colombia	Indonesia*	Malaysia	St. Kitts	Turkey
Belize	Costa Rica*	Israel	Mexico*	St. Vincent & Grenadines	Ukraine
Bolivia	Dom. Republic*	Jamaica	Nicaragua*		United Arab Emirates
Brazil	Ecuador	Japan	Oman	Saudi Arabia ^	
Brunei	Egypt	Jordan	Panama	Russia	Uruguay
Bulgaria ^	El Salvador	Kenya	Peru	Singapore	Venezuela
Canada*	Grenada	Korea	Philippines*	Surinam	Vietnam

III. WTO INCONSISTENT FTAs RESULT IN LARGE VOLUMES OF BEEF COMING TO THE UNITED STATES THAN WOULD OTHERWISE BE THE CASE

Many countries have entered into free trade agreements (FTAs) where large portions of agricultural trade, including trade in cattle and beef, have been excluded from tariff concessions. Such actions raise serious questions about FTA compliance with obligations of GATT Article XXIV:8(b), which requires that FTAs eliminate duties and other restrictions on "substantially all" of the trade between parties to the FTA. Correct implementation of Article XXIV in the FTAs would result in expanded market opportunities for FTA partners and provides alternative markets to traditional export markets such as the U.S. Lack of alternative markets cause products to be funneled into the U.S., thereby lowering prices here as well as into other markets not covered by FTAs. An examination of five of the EC's FTAs, as an example, shows the following product exclusions:

Percentage of Products Excluded * From Tariff Concessions in Five EC-FTAs

Country	HS 0102 Live Bovine Animals	HS 0201 Meat of Bovine, Fr./Chilled	HS 0202 Meat of Bovine, Frozen	Total % of Agric. products excluded
Mexico	100%	100%	100%	35%
S. Africa	100%	100%	100%	25%
Tunisia	100%	100%	100%	68%
Morocco	100%	100%	100%	67%
Israel	100%	100%	100%	87%

* Product exclusions were calculated at the 8-digit tariff line.

[5] USDA, APHIS, BSE Trade Ban Status, found at http://www.aphis.usda.gov/lpa/issues/bse/trade/bse_trade_ban_status.html.

IV. SPECIAL RULES FOR PERISHABLE AND CYCLICAL AGRICULTURAL PRODUCTS

In 2002, Congress recognized that producers of perishable, seasonal, and cyclical agricultural products, like cattle and beef, face unique challenges in the market.[6] Some proposals have been made by the U.S. in the Doha Round in the Rules area, but to date nothing has been put forward in the agriculture negotiations. In the U.S.-Australia Free Trade Agreement (FTA) this requirement was recognized by the Administration as it negotiated an agricultural safeguard for beef.[7] While the terms within the U.S.-Australia FTA are discretionary and limited to beef, it is an important precedent for the type of automatic provisions that should be part of every FTA and part of the WTO.

V. THE HIGHLY DESTRUCTIVE EFFECT OF GLOBAL MARKET DISTORTIONS ON THE U.S. CATTLE AND BEEF SECTOR

Cattle and beef production comprises the single largest sector of U.S. agriculture. Cattle are raised in all fifty states and half of all U.S. farms have beef cattle as part of their operations.[8]

Because cattle prices for U.S. producers are highly sensitive to demand movements, the combination of an open U.S. market, coupled with the global distortions outlined above, has resulted in massive dislocations to U.S. producers and the rural communities which depend on them in the last fifteen years.

Beef Cattle Operations, Losses and 2002 Cattle Receipts

	------- No. of Operations -------			Declines	---2002 Cash Receipts ---	
	1993	2002	Declines	% of 1993	000s $s	Rank
AL	32000	24000	8000	25.0%	2,378,278	14
AK	90	90	0	0.0%	27,906	49
AZ	2600	2100	500	19.2%	1,094,056	29
AR	27000	27000	0	0.0%	2,951,745	10
CA	15000	12500	2500	16.7%	6,241,632	2
CO	10500	10900	0	0.0%	3,501,589	9
CT	800	800	0	0.0%	154,364	45
DE	230	230	0	0.0%	546,329	39
FL	18000	16500	1500	8.3%	1,239,225	28
GA	23000	21000	2000	8.7%	2,889,736	12
HI	800	650	150	18.8%	84,789	46
ID	7500	7600	0	0.0%	1,998,531	17
IL	21000	15800	5200	24.8%	1,562,297	22
IN	17000	12000	5000	29.4%	1,551,019	23
IA	29000	26000	3000	10.3%	5,074,754	5
KS	29000	28000	1000	3.4%	5,325,329	4
KY	44000	40000	4000	9.1%	1,960,679	18
LA	18000	13000	5000	27.8%	614,049	38
ME	1400	1000	400	28.6%	230,471	42
MD	3800	2700	1100	28.9%	810,343	32
MA	1000	750	250	25.0%	83,250	47
MI	8000	8000	0	0.0%	1,259,700	27
MN	16000	15500	500	3.1%	3,644,854	8
MS	27000	20000	7000	25.9%	1,949,698	19
MO	62000	58000	4000	6.5%	2,302,053	15
MT	11800	11400	400	3.4%	985,498	30
NE	23000	21000	2000	8.7%	5,824,295	3
NV	1400	1300	100	7.1%	211,157	43
NH	500	530	0	0.0%	56,276	48
NJ	1200	700	500	41.7%	192,609	44
NM	7000	6500	500	7.1%	1,382,052	26
NY	7500	6200	1300	17.3%	1,870,160	20
NC	26000	21000	5000	19.2%	3,944,013	6
ND	13200	11500	1700	12.9%	723,656	37
OH	19000	17000	2000	10.5%	1,630,227	21
OK	51000	50000	1000	2.0%	2,893,460	11
OR	16000	12800	3200	20.0%	808,131	33
PA	12500	12200	300	2.4%	2,682,401	13
RI	160	160	0	0.0%	6,300	50
SC	13000	9500	3500	26.9%	760,227	35
SD	18000	16500	1500	8.3%	2,059,513	16
TN	55000	45000	10000	18.2%	913,073	31
TX	130000	133000	0	0.0%	8,087,670	1
UT	5000	5600	0	0.0%	807,752	34
VT	1100	1200	0	0.0%	400,174	40
VA	24000	23000	1000	4.2%	1,451,127	25
WA	14000	9700	4300	30.7%	1,495,317	24
WV	15000	11000	4000	26.7%	300,197	41
WI	9800	12000	0	0.0%	3,768,302	7
WY	5100	5200	0	0.0%	749,571	36

No. of Operations are for Beef Cattle & Calves, from USDA NASS, "Cattle Final Estimates" 1994-98, & 1998-2002. Cash receipts are for Livestock and products from USDA ERS.

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[6] See 19 U.S.C. § 3802(10)(A)(ix), (x); 3802(10)(B)(i); 148 Cong. Rec. S4800 (daily ed. May 23, 2002).

[7] See U.S.- Australia FTA, Annex 3-A.

[8] U.S. Department of Agriculture, *Where's the Beef? Small Farms Produce Majority of Cattle*, Agricultural Outlook, December 2002, at 21.

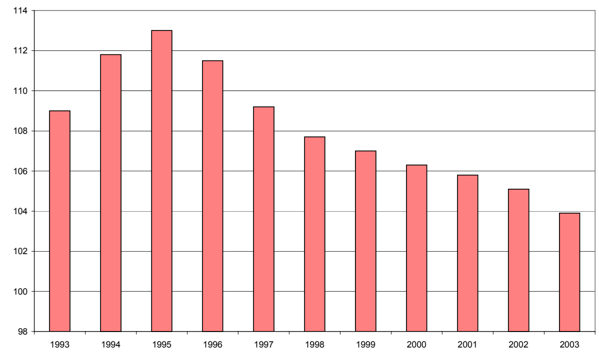
For example, in a global market where there was a level playing field for U.S. cattle producers, the U.S. would have a huge and growing trade surplus as there are only a handful of countries with the capacity to supply large quantities of quality beef for export. Yet, prior to the BSE outbreak in Canada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

United States Beef and Cattle Trade Flows, 1999-2003 ($1,000)[9]

	1999	2000	2001	2002	2003
Cattle Imports	1,007	1,157	1,464	1,448	867
Cattle Exports	174	272	270	131	64
Total, Cattle	-833	-886	-1,194	-1,317	-803
Beef, Imports	1,904	2,205	2,514	2,513	2,364
Beef, Exports	2,655	2,909	2,548	2,489	3,036
Total, Beef	751	704	34	-24	672
Total, Cattle & Beef Trade	**-82**	**-182**	**-1,160**	**-1,341**	**-130**

Limited U.S. exports, significant inflows of imports and massive global distortions have led to long-term unsustainable pricing and an unprecedented seven-year decline in cattle inventory in the United States. For example, during the 1992-2001 decade USDA reports that financial returns for cow/calf producers were a *negative* $30.40 per bred cow per year, losses aggregating to the billions of dollars. With the massive losses, cattle herds have declined as shown below:

July 1 Inventory of Cattle for the U.S. (million head)



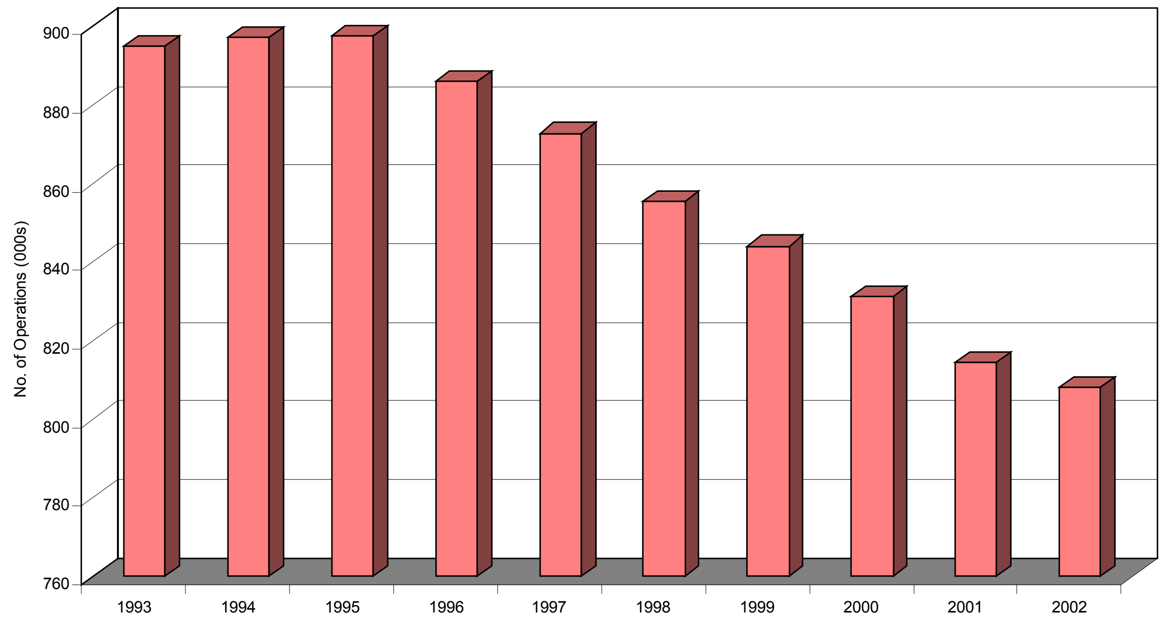
While the partial closure of the Canadian border in 2003 because of the BSE outbreak in that country has provided a temporary respite for U.S. producers in terms of pricing levels, only correction of the global distortions can restore pricing equilibrium.

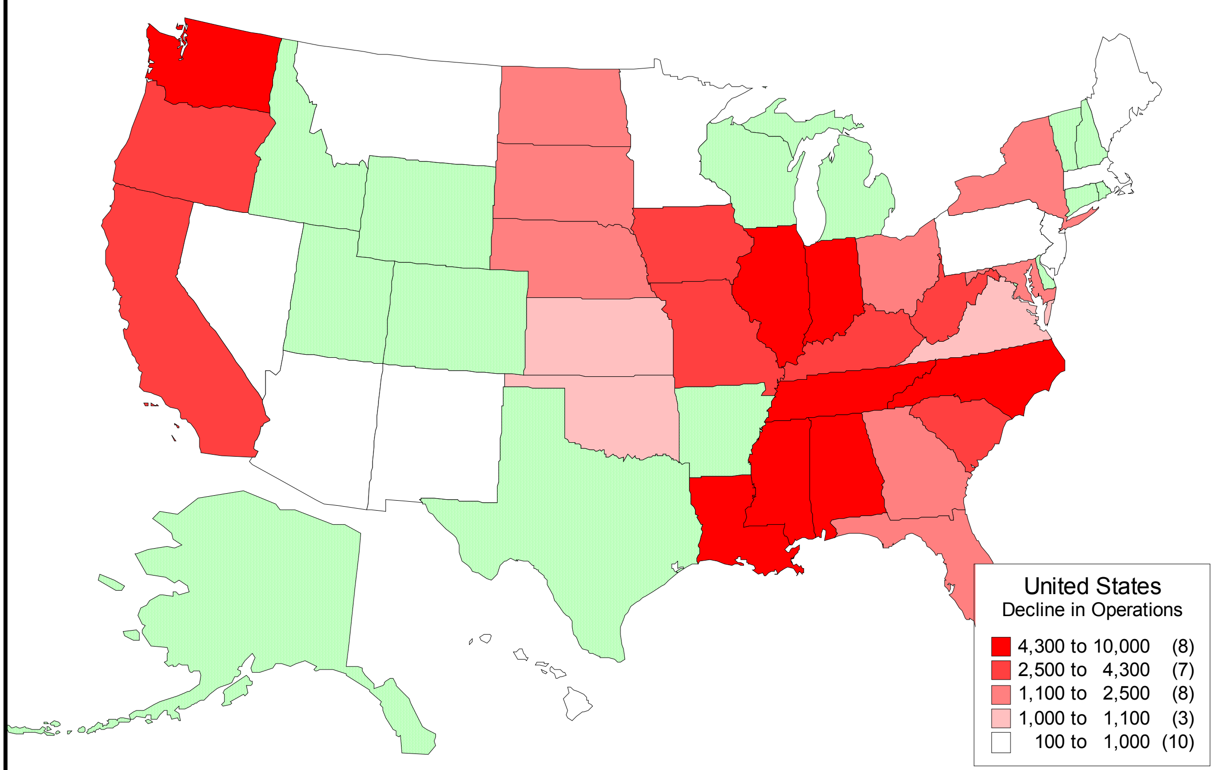
The unsustainable prices over the last fifteen years have resulted in ranching families going bankrupt by the thousands and being forced off of their land. In 1993, there were nearly 900,000 beef operations in the United States. By 2003, this number declined to 792,100 operations.[10] In the late 1990s, auctions of equipment from ranches and farms were a weekly event across rural America as families lost everything they owned and saw the end of what was often generations-old family businesses.

[9] Data Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics, HS 0102 (cattle), 0201 (fresh beef), and 0202 (frozen beef).

[10] USDA - National Agricultural Statistics Service, Number of All and Beef Cow Operations, 1988-2003 found at http://www.usda.gov/nass/aggraphs/acbc_ops.htm..

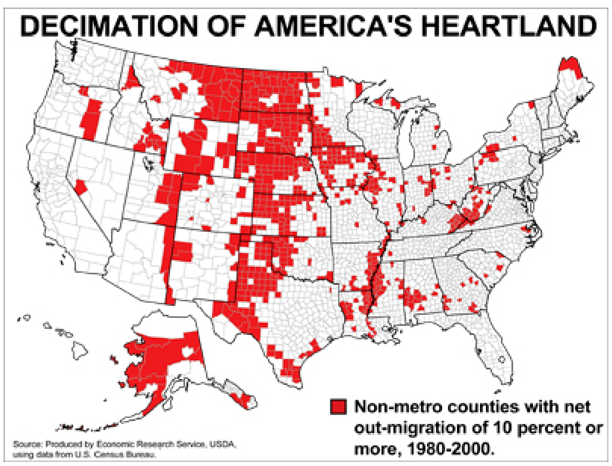
Decline in Beef Cattle Operations 1993-2002





The depressed pricing in the marketplace over most of the last fifteen years has meant a hollowing out of the ranching communities across American and with it the destruction of many of the rural communities dependent on ranch and farm economic health for survival.

> The red [shaded areas] on this chart shows the rural counties across America that have experienced greater than 10-percent net out-migration over the last 20 years. There is a relentless engine of depopulation in the heartland of our country. It is from North Dakota to Texas in an eggshell shaped form.[11]



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> The fundamental reason for the existence of most rural communities is to support those engaged in agriculture. But it takes people, not just production, to support a community….Also a rural community is far more than a rural economy. It takes people to fill the church pews and school desks, to serve on town councils, to justify investments in health care and other social services, and to do the things that make a community. The decreasing number of family farms chronicles the deaths of rural communities, where family farm dollars paid to equipment dealers, grocery stores, and gas stations recirculated through the local economy four times.[12]
>
> …
>
> It goes without saying that we in production agriculture are operating in an era that rivals the likes of the Great Depression. The price we receive for the goods we produce does not come close to covering total costs of production let alone render a profit.[13]

VI. ACTION TO REFORM DISTORTIONS IS CRITICAL

Eliminating the global distortions in cattle and beef trade is important to every state in the United States, to thousands of rural communities and to some eight hundred thousand ranching and farming families that raise cattle in America. Some distortions can be addressed through the WTO Doha Negotiations but only if the level of ambition at least for cattle and beef is substantially

[11] Senator DORGAN, Congressional Record, S3664 (March 13, 2003).

[12] Anuradha Mittal, Freedom to Trade? Trading Away Family Farms, *available at* http://www.mindfully.org/Farm/Trading-Away-Family-Farms.htm.

[13] House Agriculture Committee Hearings on the 2002 Farm Bill, Statement of Chuck Lee, a diversified farmer in Georgia who raises (among other things) cattle.

higher than appears to be the direction of negotiations in mid-June 2004.

What is needed from the ongoing WTO Doha Development Round:

(a) elimination of all export subsidies (developed and developing countries);
(b) elimination of all domestic subsidies (developed and developing countries);
(c) harmonization of tariffs at a level comparable to that existing in the U.S. for all major consuming and all major producing nations; and
(d) maintenance of special safeguards on beef and/or the negotiation of special rules for perishable and cyclical agricultural products.

In addition, the U.S. must obtain through negotiation, dispute resolution or otherwise:

(a) a harmonization of SPS measures as applied to cattle and beef from all major consuming and producing nations;
(b) expansion of trading partners' FTAs to cover substantially all trade in fact, including cattle and beef where not presently covered; and
(c) elimination of state trading enterprises involved in grains, cattle or beef to ensure products are traded according to market principles without distortions.

Finally, it is critical that the United States include in any future FTAs special rules for perishable and cyclical agricultural products applicable to both cattle and beef that are automatic and triggered by both price and volume.